sparknetworks™

2004 Annual Report

MatchNet.com.au

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BUSINESS

Throughout this annual report, 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 and AmericanSingles are our trademarks. Trade names, trademarks and service marks of other companies appearing in this annual report are the property of the respective holders.

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. During 2004, we averaged approximately 4.9 million unique monthly visitors to our Web sites in the United States, which, according to comScore Media Metrix, ranked us as the third largest provider of online personals services in the United States. Currently, our key Web sites are JDate.com and AmericanSingles.com. 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 24/7 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.

As of December 31, 2004, we had more than 10 million members, which we define as individuals who have posted a personal profile or have logged on to any of our Web sites at least once in the last 12 months. For the year ended December 31, 2004, we had approximately 226,100 average paying subscribers, representing an increase of 79.7% from the year ended December 31, 2003.

Our Industry

Overview

We believe that online personals fulfill significant needs for America's 95.7 million 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.

Growth Drivers

Internet Growth and Broadband Adoption. According to the Pew Internet & American Life Project, a nonprofit research organization, nearly 63% of the American adult population is now online, and 60 million American adults have high-speed connections at home, up from just 5 million in 2000. On an average day in 2004, 70 million American adults logged onto the Internet, which represents a 37% increase from the 52 million adults who were online on an average day in 2000. In 2004, International Data Corporation, or IDC, reported that in the United States, users are migrating to broadband connections which enable faster delivery of complex content such as online photos and streaming media, as well as instant messaging. IDC projects that 60% of Internet households in the United States will have broadband connections by 2008.

Growth in E-commerce. We believe broadband users have a higher propensity to conduct e-commerce transactions, including the purchase of content and services online, as these Internet connections provide faster, more convenient transaction experiences. According to IDC, worldwide consumer e-commerce spending is expected to grow from $240 billion in 2003 to $700 billion by 2007, implying a compound annual growth rate of 30%.

Mainstream Acceptance of Online Personals Services. Online personals services continue to gain mainstream acceptance. In 2003, 21% of all United States Internet users browsed online personals and 13% posted their own profiles, according to JupiterResearch. In 2003, the Personals/Dating category held its position as the largest paid content category, with a market size of $450 million, according to the Online Publishers Association.

Our Competitive Strengths

- ***Critical Mass of Members.*** We had more than 10 million members as of December 31, 2004. We believe that one of the reasons singles seeking friendship, dating or long-term relationships are attracted to our Web sites is because of our large pool of members, which increases the likelihood of a suitable match. We believe that increasing interaction among members within our online community and generating strong word-of-mouth promotion helps create additional interest in our services, add new members, retain those members and convert them into paying subscribers and retain those paying subscribers.
- ***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 24/7 with dating and technical 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.
- ***Strength of JDate Brand.*** We believe that JDate and its strong brand recognition in the Jewish community is a valuable asset. According to the National Jewish Population Survey, there are approximately 1.8 million Jewish singles in the United Sates. As of December 31, 2004, JDate had approximately 600,000 members. 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.

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 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 them 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 solely dedicated to the Jewish community. According to the National Jewish Population Survey, there are approximately 1.8 million Jewish singles in the United Sates. As of December 31, 2004, JDate had approximately 600,000 members. 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.

- *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 $24.95.

- *Other Web sites.*

Web site	Target markets
CollegeLuv.com	College singles
Cupid.co.il	Jewish singles (Israel only)
Date.ca	Canadian singles
FaceLink.com	Individuals wishing to share photographs
Glimpse.com	Gay, lesbian and transgender singles
JDate.co.il	Jewish singles (Israel only)
MatchNet.co.uk	UK singles
MatchNet.com.au	Australian singles
MatchNet.de	German singles
SilverSingles.com	Aging baby boomers

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.

- *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.
- *Instant Messaging and Online Now.* Paying subscribers can communicate with another paying subscriber or member on a real-time basis. Audio/video functionality is offered on some of our Web sites and we are in the process of implementing this feature on all of our Web sites.
- *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 2% of our revenues for the year ended December 31, 2004 were generated from travel and events.

Business Strategy

We intend to grow our subscription-based revenue by driving additional traffic to our Web sites, increasing the number and percentage of our members who convert to paying subscribers, and launching new businesses in vertical affinity markets.

Grow Memberships. 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 memberships.

- *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 members 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 member base.

Increase Conversion Rates. We had more than 10 million members as of December 31, 2004, and approximately 226,100 average paying subscribers for the year ended December 31, 2004. We believe that a significant growth opportunity lies in our ability to convert more of our members into paying subscribers. We plan to achieve this increase in conversion by focusing on:

- *Improved matching 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 matching technology and the quality and relevance of our search results to provide fast, relevant matching 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 improving our conversion rates of members to paying subscribers.

Extend Into New Vertical Affinity Markets. We constantly evaluate new opportunities in an attempt to identify new vertical affinity markets into which we may expand. Our large base of members provides us with a significant amount of consumer data to evaluate opportunities for growth into such new markets. We are able to analyze different groups of members by key metrics such as average conversion rates and average revenue per paying subscriber and identify those targeted groups that may prefer a service dedicated to their particular affinity group. We intend to target 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. We are employing a new scalable and cost efficient technology infrastructure, which we believe will improve our ability to launch Web sites targeting new vertical affinity markets.

Customer Service

Our customer support and service function operates 24/7. As of December 31, 2004, we employed 47 customer service representatives at our Beverly Hills, California facility and 12 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 two 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.

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

Technology

Our software development team consisted of 24 employees as of December 31, 2004, 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 34 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 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 scalable 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 12 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 in the United States and several other countries; we also have a number of other registered and unregistered trademarks. Our patent for *Click!* was granted in September 1999 and pertains to an automated process for confidentially determining whether people feel mutual attraction or have mutual interests. 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.

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, a subsidiary of Intermix Media, Inc., 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 December 31, 2004, we had 169 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. We also lease office space in 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

Two separate yet similar class action complaints have been filed and are pending against our company. On June 21, 2002, Tatyana Fertelmeyster filed an Illinois class action complaint against our company in the Circuit Court of Cook County, Illinois, based on an alleged violation of the Illinois Dating Referral Services Act. In *Jason Adelman v. MatchNet plc, Los Angeles Superior Court, Case No. BC 306167*, the plaintiff filed a nationwide class action complaint against our company 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 alleged that our company was a dating service and, as an alleged dating service, our company is required to provide language in our contracts that allows members to rescind their contracts within three days, that allows reimbursement of a portion of the contract price if the member dies during the term of the contract and/or that allows 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 brought against InterActiveCorp's Match.com that has been ruled related to *Adelman*, but the two cases have not been consolidated. *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, and a hearing will be scheduled to determine whether, as matter of law, the California Dating Services Act applies to our business. If the court determines that the Act is inapplicable, all further expenses associated with discovery and class certification can be avoided.

We have filed a motion for summary judgment and the court has certified an Illinois class in the case brought by Ms. Fertelmeyster. The purported class includes all of our members in Illinois for the five years preceding the filing of the action.

We believe that each of the plaintiffs purported class action lawsuits is without merit and we will defend against each of them vigorously. No assurance can be given, however, that these matters will be resolved in our favor.

On July 13, 2001, Liveworld, Inc. filed a complaint in the Santa Clara County Superior Court in California against our company and SocialNet, Inc. In February 2001, we purchased the outstanding shares of SocialNet pursuant to a share exchange agreement. The plaintiff contended that we assumed the obligations of SocialNet pursuant to a letter agreement to purchase $1.5 million of services from the plaintiff and that we failed to purchase the services and induced SocialNet to breach the letter agreement with the plaintiff. The complaint, as amended, alleged breach of contract, breach of implied covenant of good faith and fair dealing, quantum meruit, fraud, intentional interference with contract and fraudulent transfers. The plaintiff sought compensatory damages in the approximate amount of $1.1 million plus interest and punitive damages. In July 2002, we filed a cross-complaint for

declaratory relief and rescission and, in November 2002 we filed a demurrer on the interference with contract claim, which was overruled. In September 2003, we moved for summary judgment, which was denied. The court had scheduled a trial date in March 2005, however in February 2005 we settled this litigation for $400,000, which was paid in March 2005.

We have additional existing legal claims and may encounter future legal claims in the normal course of business. In our opinion, the resolution of these additional existing legal claims are not expected to have a material impact on our financial position or results of operations.

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 audited consolidated financial statements and the related notes thereto included elsewhere in this annual report.

This annual report, including the sections entitled ' "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 annual 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" 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 the S-1 registration statement filed with the Securities and Exchange Commission on March 10, 2005.

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. As of December 31, 2004 we had more than 10 million members. For the year ended December 31, 2004, we had approximately 226,100 average paying subscribers, representing an increase of 79.7% from the year ended December 31, 2003. 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 $24.95 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 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, 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 February 2002, we acquired FaceLink Inc., which allowed us to provide photograph sharing capabilities to our members and paying subscribers.
- In January 2004, we purchased Point Match Ltd., a leading competitor of JDate.co.il in Israel.
- 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.

Our future success will depend on many factors, including:

- continued acceptance of online personals services;
- our ability to attract a large number of new members, retain those members, convert them into paying subscribers and retain those 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 success 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 significant resources in order to enhance our existing services and introduce new services, which may include new Web sites as well as new features designed to increase the probability of communication among our members and paying subscribers and to enhance their online personals experiences.

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 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, and are directly attributable to the revenues we receive from our subscribers. 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 partner a fee based upon the number of new paying subscribers that they generate;
- Cost per acquisition (CPA) where we pay an online advertising partner a fee based on the number of new member registrations they generate;
- Cost per click (CPC) where we pay an online advertising partner a fee based on the number of clicks to our Web sites they generate; and
- Cost per thousand for banner advertising (CPM) where we pay an online advertising partner a fee based on the number of times they display 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.

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 the impairment of goodwill, identifiable intangible assets and other long-lived assets whenever events or changes in 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;
- 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 periodically review intangible assets and goodwill for impairment 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 December 31, 2004, 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.

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.

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,		
	2002	2003	2004
		(in thousands)	
Net Revenues:			
JDate	$ 8,372	$16,091	$23,820
AmericanSingles	6,644	19,253	35,224
Other Businesses	1,336	1,597	6,008
Total	$16,352	$36,941	$65,052
Direct Marketing Expenses:			
JDate	$ 224	$ 739	$ 1,740
AmericanSingles	3,970	15,887	24,954
Other Businesses	1,202	1,769	4,546
Total	$ 5,396	$18,395	$31,240
Contribution Margin:			
JDate	$ 8,148	$15,352	$22,080
AmericanSingles	2,674	3,366	10,270
Other Businesses	134	(172)	1,462
Total	$10,956	$18,546	$33,812

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 (1) the number of paying subscriber cancellations during the period divided by the number of average paying subscribers during the period and (2) the number of months in the period.

Unaudited selected statistical information regarding our key operating metrics for the years ended December 31, 2002, 2003, 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.

	Year ended December 31,		
	2002	2003	2004
Average Paying Subscribers (in thousands):			
JDate	27.7	50.7	69.8
AmericanSingles	29.5	71.5	132.5
Other Businesses	1.5	3.6	23.8
Total	58.7	125.8	226.1
Average Monthly Net Revenue per Paying Subscriber:			
JDate	$25.20	$26.44	$28.42
AmericanSingles	18.77	22.43	22.16
Other Businesses	33.17	23.72	16.75
All Segments	22.17	24.09	23.53
Direct Subscriber Acquisition Cost:			
JDate	$ 2.90	$ 4.39	$ 8.09
AmericanSingles	38.68	45.70	43.29
Other Businesses	78.43	80.32	34.74
All Segments	25.56	33.84	33.85
Monthly Subscriber Churn:			
JDate	18.2%	22.4%	25.8%
AmericanSingles	24.3	32.1	35.6
Other Businesses	32.6	33.4	26.8
All Segments	21.6	28.2	31.7

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,		
	2002	2003	2004
Consolidated Statements of Operations Data:			
Net revenues	100.0%	100.0%	100.0%
Direct marketing expenses	33.0	49.8	48.0
Contribution margin	67.0	50.2	52.0
Operating expenses:			
Indirect marketing	2.5	2.5	3.8
Customer service	7.4	6.9	5.2
Technical operations	9.7	11.7	11.0
Product development	3.7	2.6	3.1
General and administrative (excluding share-based compensation)	48.8	45.7	42.7
Share-based compensation	0.0	5.1	2.6
Amortization of intangible assets other than goodwill	3.2	1.5	1.3
Impairment of long-lived assets and goodwill	0.0	4.1	0.3
Total operating expenses	75.3	80.1	70.0
Operating loss	(8.3)	(29.9)	(18.0)
Interest (income) and other expenses, net	(5.1)	(0.5)	(0.1)
Loss before income taxes	(3.2)	(29.4)	(17.9)
Provision for income taxes	0.0	0.0	0.0
Net loss	(3.2)%	(29.4)%	(17.9)%

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 561.1%, 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 increase in the number of members for the Web sites as well as to an improved rate of conversion of members to paying subscribers.

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-

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. The decrease in direct subscriber acquisition cost for AmericanSingles and the Web sites in our Other Businesses segment was due to improved conversion rates.

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 e-mails 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.

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 $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.

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. 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 all of our segments decreased to 48.0% from 49.8% for the years ended December 31, 2004 and 2003, respectively, largely due to improved conversion rates from members to paying subscribers.

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 improved conversion rates from members to paying subscribers, as well as 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 increased 170.2%, to approximately $2.5 million in 2004 compared to $907,000 in 2003. Stated as a percentage of net revenues, indirect marketing expenses increased to 3.8% for 2004 from 2.5% 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 65.0% to $7.2 million in 2004 from $4.3 million in 2003. Stated as a percentage of net revenues, technical operations expenses decreased to 11.0% in 2004 from 11.7% 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 64.2%, to $27.7 million in 2004 from $16.9 million in 2003. Stated as a percentage of net revenues, general and administrative expenses decreased to 42.7% in 2004 from 45.7% 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 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 the S-1 registration statement on March 10, 2005 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

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.

Amortization of Intangible Assets Other Than Goodwill. Amortization expenses consist primarily of amortization of intangible assets related to previous acquisitions, primarily SocialNet and PointMatch. 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 PointMatch 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.

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 commitment. 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 e-mails 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. Stated as a percentage of net revenue, total direct marketing expenses for all of our segments increased to 49.8% from 33.0% in 2003 and 2002, respectively, largely as a result of growth in the AmericanSingles member/subscriber base and growth in marketing spending for that product, which has a lower conversion rate than JDate.

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 125.1%, to approximately $907,000 in 2003 from approximately $403,000 in 2002. Stated as a percentage of net revenues, indirect marketing expenses remained constant at 2.5% in 2003 and 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 173.5%, to $4.3 million in 2003 from $1.6 million in 2002. Stated as a percentage of net revenues, technical operations expenses increased to 11.7% 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 111.2%, to $16.9 million in 2003 from $8.0 million in 2002. Stated as a percentage of net revenues, general and administrative expenses decreased to 45.7% 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 decrease as a percentage of net revenues was primarily the result of economies of scale in supporting a larger

member and subscriber base. General and administrative expenses for 2003 also included $1.7 million in charges primarily related to a settlement with Comdisco.

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.

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 annual report. We 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[1]							
	Mar 31, 2003[2]	Jun 30, 2003[2]	Sep 30, 2003[2]	Dec 31, 2003	Mar 31, 2004	Jun 30, 2004	Sep 30, 2004	Dec 31, 2004
	(in thousands except per share data and Additional Information)							
Consolidated Statements of Operations Data:								
Net revenues	$ 7,036	$ 8,423	$ 9,792	$ 11,690	$ 15,050	$ 15,812	$ 17,138	$ 17,052
Direct marketing expenses	3,576	4,680	3,955	6,184	6,539	9,325	8,748	6,628
Contribution margin	3,460	3,743	5,837	5,506	8,511	6,487	8,390	10,424
Operating expenses:								
Indirect marketing	(61)	131	488	349	529	522	881	519
Customer service	563	458	736	779	975	903	723	778
Technical operations	819	994	1,024	1,504	1,344	1,974	1,861	1,983
Product development	168	229	82	480	340	531	505	637
General and administrative (excluding share-based compensation)	2,483	2,628	6,025	5,749	6,383	5,695	8,469	7,180

Footnotes on following page.

	Three months ended[1]							
	Mar 31, 2003[2]	Jun 30, 2003[2]	Sep 30, 2003[2]	Dec 31, 2003	Mar 31, 2004	Jun 30, 2004	Sep 30, 2004	Dec 31, 2004
	(in thousands except per share data and Additional Information)							
Share-based compensation	—	—	—	1,871	1,712	689	(1,239)	542
Amortization of intangible assets other than goodwill	131	58	200	166	244	238	188	190
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
Income from operations	(643)	(755)	(2,718)	(6,924)	(3,016)	(4,065)	(2,998)	(1,613)
Interest (income) and other expenses, net	(53)	(57)	(22)	(56)	4	28	(46)	(52)
Income (loss) before income taxes	(590)	(698)	(2,696)	(6,868)	(3,020)	(4,093)	(2,952)	(1,561)
Income taxes	1	39	—	(40)	1	—	—	—
Net income (loss)	$ (591)	$ (737)	$ (2,696)	$ (6,828)	$ (3,021)	$ (4,093)	$ (2,952)	$ (1,561)
Net income (loss) per share — basic[3]	$ (0.03)	$ (0.04)	$ (0.14)	$ (0.35)	$ (0.14)	$ (0.18)	$ (0.13)	$ (0.06)
Weighted average shares outstanding — basic[3]	18,707	18,736	18,960	19,449	21,286	22,264	23,356	24,234
Other Financial Data:								
Depreciation	$ 287	$ 333	$ 405	$ 416	$ 579	$ 790	$ 839	$ 857
Additional Information:								
Average Paying Subscribers[4]	94,700	118,000	130,700	160,000	207,400	228,400	239,600	229,000
Average monthly net revenue per paying subscriber[5]	$ 24.50	$ 23.55	$ 24.20	$ 24.14	$ 23.83	$ 22.74	$ 23.50	$ 24.06
Subscriber churn[6]	27.9%	28.9%	29.6%	26.8%	32.1%	30.6%	31.6%	32.4%
Average direct subscriber acquisition cost[7]	$ 33.49	$ 38.38	$ 31.32	$ 32.69	$ 27.82	$ 40.53	$ 37.41	$ 29.37

[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.

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 December 31, 2004, we had cash, cash equivalents and marketable securities of approximately $7.4 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 used in operating activities was $1.5 million for the year ended December 31, 2004. Net cash provided by operating activities was $2.2 million and $2.1 million in 2003 and 2002, respectively.

Net cash used in investing activities was $11.2 million in 2004, compared to $1.5 million in 2003 and $5.2 million in 2002. Cash related to investing activities in 2004 was used primarily for the acquisition of Point Match Ltd., requiring approximately $6.3 million of which $2.0 million was on deposit in 2003, and capital expenditures of approximately $5.5 million in 2004.

Net cash provided by financing activities was approximately $14.8 million in 2004, which consisted primarily of net proceeds from the issuance of ordinary shares of approximately $15.2 million offset by payments of capital lease obligations of $314,000. Net cash provided by financing activities was approximately $895,000 and $790,000 in 2003 and 2002, respectively.

We will fund any costs related to our rescission offer from the proceeds of the offering. We do not believe our rescission offer would affect our ability to obtain financing in the future, due to our belief that it is unlikely that the rescission offer will be accepted by our stockholders or option holders in an amount that would represent a material expenditure by us. This belief is based on the fact that our rescission offer will offer to repurchase shares at a weighted average price of $2.09 and to repurchase options with a weighted average exercise price of $3.04 .

We believe that net proceeds of the offering, 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 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.

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	$ —	$—	$—	$ 173
Operating leases	711	674	—	—	1,385
Other commitments and obligations	817	408	—	—	1,225
Total contractual obligations	$ 1,701	$ 1,082	$—	$—	$ 2,783

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.

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.

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relates 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 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 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.

Foreign Currency Exchange Risk

As we increase our operations in international markets we may become exposed to potentially volatile movements in currency exchange rates. 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, 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 Nasdaq National Market, 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 Nasdaq National Market applicable to us. We have taken, and will continue to take, certain 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. 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."

Recent Accounting Developments

In December 2004, the Financial Accounting Standards Board issued Statement No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123R 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 will adopt SFAS No. 123R beginning July 1, 2005 and plan to use the modified prospective transition method.

Since we will be required to expense the fair value of share options rather than disclosing the pro forma effects on the results of operations within our footnotes, our reported earnings per share will decrease, which could negatively impact our future share price. In addition, this could impact our ability to utilize broad based employee share plans to reward employees.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Advances to Executives

Pursuant to then-existing compensation arrangements, we made advances to two executive employees, Joe Y. Shapira and Alon Carmel, of approximately $700,000 each as payments under guaranteed compensation arrangements as of December 31, 2002. During 2003, our Board of Directors declared the guarantees to have been earned during the year and the receivable was charged against operating results. As of December 31, 2003, Joe Y. Shapira was our Chief Executive Officer and is currently our Executive Chairman of the Board. Alon Carmel was our President as of December 31, 2003 and is no longer employed by our company.

Remote Concepts LLC

In 2003, we entered into a verbal marketing arrangement with Remote Concepts LLC, an entity owned 32.5% by each of Joe Y. Shapira and Alon Carmel. Remote Concepts LLC has developed a table top wireless paging system for use by patrons at restaurants. Further to the verbal arrangement, we expensed approximately $120,000 paid to Remote Concepts LLC for ad placement on these systems.

Severance of Former General Counsel

In 2004, Adam Kravitz resigned as our General Counsel. In connection with his resignation and further to the terms of his employment agreement, we paid Mr. Kravitz as severance an aggregate of approximately $2.4 million. Mr. Kravitz resigned from our Board of Directors in June 2004.

Efficient Frontier

In 2004, we entered into an agreement with Efficient Frontier, a provider of online marketing optimization services to procure and manage a portion of our online paid search and keyword procurement efforts. The Chief Executive Officer of Efficient Frontier is Ms. Ellen Siminoff, who is the wife of our Chief Executive Officer, David E. Siminoff. We paid approximately $61,000 to Efficient Frontier in 2004. We have a contract with Efficient Frontier that calls for minimum payments of $6,000 per month through July 2005.

Yobon, Inc.

In 2004, we invested $250,000 in Yobon, Inc., a provider of web toolbar technology. The investment was in the form of convertible debt, which will convert into equity upon Yobon's completion of an equity financing, if such equity financing is completed within certain timeframes. Our Chief Technology Officer, Phil Nelson, is the Chairman of Yobon.

Other Relationships

Several relatives of each of Joe Y. Shapira, our Executive Chairman of the Board, and Alon Carmel, our former Co-Executive Chairman of the Board, hold non-executive positions with our company and MatchNet Israel.

OTHER DETAILS

Management changes during 2004

In order to successfully prepare for growth and scalability, the following officers were hired in 2004:

- In October 2004, Mark Thompson became the Chief Financial Officer.
- In October 2004, Phil Nelson became the Chief Technical Officer
- In October 2004, Greg Liberman became the General Counsel

In March 2004, Joe Y. Shapira resigned as Chief Executive Officer but continues to serve as Chairman of our Board of Directors. In March 2004, Alon Carmel resigned as President; he resigned as Executive co-chairman of our Board of Directors in March 2005.

In March 2004, Todd Tappin became the President and Chief Executive Officer of MatchNet plc. In August of 2004, he resigned to pursue a new business opportunity. Mr. Tappin resigned from the company's Board of Directors in August 2004.

In August 2004, MatchNet announced the appointment of David Siminoff, who has served on MatchNet's board since February, as its new CEO. Mr. Siminoff brings extensive Internet commerce experience to his new post. He spent almost 10 years in executive capacities with Capital Group's Capital Research unit. At Capital Research, which is one of the world's largest and most successful investment management firms, Mr. Siminoff was responsible for both research analysis and portfolio management in the media and Internet technologies sectors. He holds an undergraduate degree and an M.B.A. from Stanford University, and an M.F.A. from the University of Southern California Film School.

In March 2004, Adam Kravitz resigned as our General Counsel. Mr. Kravitz continued to serve as our Secretary and as a member of our Board until June 2004 when he resigned as a member of our Board.

Changes in the Board of Directors during 2004

Florian Homm and Franklin Urteaga resigned from the Board of Directors in March 2004. Todd Tappin and David Siminoff replaced them as directors in the same month. Mr. Adam Kravitz resigned from the board in the second quarter of 2004.

Todd Tappin resigned from the Board in August 2004. Mr. Benjamin Derhy was appointed to the Board of Directors in October 2004.

Subsidiaries added during 2004

In January 2004, MatchNet formed a Canadian subsidiary, Enterprise Canada MatchNet, Inc., to own its Canadian domain names.

Other events

It has recently come to the attention of our current executive officers that, in 1994, a civil action was filed in Israeli district court (the "Action") involving Videomatrix Industries, LTD ("Videomatrix"), a company unrelated to Spark Networks. 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, 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 the company, 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.

RISK FACTORS

You should carefully consider the risks described below together with all of the other information included in this annual report before making an investment decision. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that adversely affect us. 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 GDSs, 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 December 31, 2004, we had an accumulated deficit of approximately $43.6 million. We had a net loss of approximately $11.6 million for the fiscal year ended December 31, 2004 and approximately $10.9 million for the year ended December 31, 2003. Our net loss for the three months ended December 31, 2004 was approximately $1.6 million. 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 success will depend on many factors that are difficult to predict, such as continued acceptance of online personal services and other factors addressed herein. We may not be able to successfully 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.

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 success of our business.

We expect competition in the online personals business to continue to increase because there are no substantial barriers to entry. 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 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, a subsidiary of Intermix Media, Inc., 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 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 be successful. 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 success 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. 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 substantial 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. We may not be successful in integrating 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 continue to increase, given the growing number of Internet sites and the low barriers to entry for companies offering online personals services. 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 partners 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.

We may have potential liability under California state and federal securities laws with respect to the grant of certain share options to 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. These option grants 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 March 3, 2005, assuming every eligible optionee were to accept a rescission offer, we estimate the total cost to us to complete the rescission for the unexercised options would be approximately $4.0 million, excluding 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 federal and California state 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.

As of March 3, 2005, assuming every eligible person that continues to hold the securities issued upon exercise of options granted under the 2000 Scheme were to accept a rescission offer, we estimate the total cost to us to complete the rescission for such issued securities would be approximately $3.6 million, excluding statutory interest. These amounts are calculated by reference to the acquisition price of the 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, the Securities Act of 1933 does not provide that a rescission offer will 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 we do not elect to make a rescission offer, we may continue to be liable under California state and federal securities laws for the grant of the options and the purchase price of the ordinary shares that are subject to the rescission offer. 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, 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.

We intend to file 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.

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 and success is largely dependent on the talents and efforts of highly skilled individuals. We have recently recruited many of our 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, 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 certain 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.

As we become a more mature company, we may find our recruiting efforts more challenging. Competition in our industry for personnel is intense, and we are aware that certain of 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 and demand for our services 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 partners, 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, procedures or internal controls may not be adequate to support our operations and our management may not be able to manage such 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. It is possible that our operating margin 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 failover 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.

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.

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. 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 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 successful in entering 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 third parties that manage and monitor 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 successfully 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. While the external auditor's letter to management in connection with our audit of our 2004 results did not note any reportable conditions, we are continuing to take steps to address the previously noted conditions and otherwise to improve our internal controls. For example, we are continuing to hire additional accounting staff and are making plans to replace our current automated accounting system by the end of the third quarter of 2005.

As a 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.

It has recently come to the attention of our current executive officers that, in 1994, a civil action was filed in Israeli district court (the "Action") involving Videomatrix Industries, LTD ("Videomatrix"), a company unrelated to Spark Networks. 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, 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 the company, 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.

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.

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 a limited amount of 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 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 successful 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.

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.

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.

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 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.

We currently anticipate that the net proceeds from the planned offering as discussed in the S-1 Registration statement, filed with the Securities and Exchange Commission on March 10, 2005, 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. 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 successful.

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 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 how successfully we 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 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.

It has been and may continue to be expensive to obtain and maintain an appropriate level of insurance coverage.

We contract for insurance to cover potential risks and liabilities. In the current environment, insurance companies are increasingly specific about what they will and will not insure. It is possible that we 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.

Our principal shareholders can exercise significant influence over us.

As of January 31, 2005, Joe Y. Shapira, Alon Carmel, and Tiger Technology Management, L.L.C. and their respective affiliates beneficially owned, in the aggregate, 56.0% of our outstanding share capital As a result, 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.

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.

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 fiscal years ended December 31, 2003 and 2004, the monthly subscriber churn for (1) the JDate segment was 22.4% and 25.8%, respectively, (2) the AmericanSingles segment was 32.1% and 35.6%, respectively, and (3) the Web sites in our Other Businesses segment was 33.4% and 26.8%, 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. Our failure to successfully 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 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 depositary 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 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 Los Angeles Superior Court alleging violation of California Civil Code section 1694 et seq., which regulates businesses that provide dating services. In addition, *Huebner v. InterActiveCorp.* involves a similar action brought against InterActiveCorp's Match.com that has been ruled related to the Adelman case, but the two cases have not been consolidated. The Adelman and Huebner cases each seek to certify a nationwide class action based on their complaints.

We have prevailed in the Grossman case in New York and believe that each of the other plaintiffs' purported class action lawsuits against us is without merit and we will defend against each of them vigorously. No assurance can be given, however, that these matters will be resolved in our favor.

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 successful in entering 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.

Our success 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 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.

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
of Spark Networks plc (formerly known as MatchNet plc):

We have audited the accompanying consolidated balance sheets of Spark Networks plc (formerly known as MatchNet plc) as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spark Networks plc (formerly known as MatchNet plc) as of December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Los Angeles, California
March 7, 2005

SPARK NETWORKS PLC
(formerly known as MatchNet plc)

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 2003	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 2,035	$ 4,265
Marketable securities	3,780	3,158
Restricted cash	—	1,330
Accounts receivable, net of allowance of $13,000 ($10,000 in 2003)	410	641
Advances to employees	450	223
Prepaid expenses and other	902	879
Total current assets	7,577	10,496
Property and equipment, net	4,273	6,467
Goodwill, net	2,024	7,955
Intangible assets, net	987	1,069
Investment in noncontrolled affiliate	—	1,167
Deposits and other assets	2,228	408
Total assets	$17,089	$27,562
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 3,385	$ 3,014
Accrued liabilities	4,555	8,052
Deferred revenue	3,232	3,933
Notes payable — current portion	—	400
Current portion of obligations under capital leases	316	173
Total current liabilities	11,488	15,572
Obligations under capital leases, net of current portion	171	—
Notes payable — long term	—	1,300
Total liabilities	11,659	16,872
Shares subject to rescission (Note 10)	—	3,819
Commitments and contingencies (Note 13)	—	—
Shareholders' equity:		
Authorized capital £800,000 divided into 80,000,000 ordinary shares of 1p each; issued and outstanding 24,587,351 shares as of December 31, 2004, 19,556,699 shares as of December 31, 2003 at a stated value of:	313	401
Additional paid-in-capital	39,737	50,423
Deferred share compensation	(2,572)	(305)
Accumulated other comprehensive income (loss)	(40)	(13)
Accumulated deficit	(32,008)	(43,635)
Total shareholders' equity	5,430	6,871
Total liabilities and shareholders' equity	$17,089	$27,562

See accompanying notes.

SPARK NETWORKS PLC
(formerly known as MatchNet plc)

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year ended December 31,		
	2002	2003	2004
Net revenues	$16,352	$ 36,941	$ 65,052
Direct marketing expenses	5,396	18,395	31,240
Contribution margin	10,956	18,546	33,812
Operating expenses:			
Indirect marketing	403	907	2,451
Customer service	1,207	2,536	3,379
Technical operations	1,587	4,341	7,162
Product development	603	959	2,013
General and administrative (excluding share-based compensation)	7,996	16,885	27,727
Share-based compensation	—	1,871	1,704
Amortization of intangible assets other than goodwill	524	555	860
Impairment of long-lived assets	—	1,532	208
Total operating expenses	12,320	29,586	45,504
Operating loss	(1,364)	(11,040)	(11,692)
Interest (income) and other expenses, net	(840)	(188)	(66)
Loss before income taxes	(524)	(10,852)	(11,626)
Provision for income taxes	—	—	1
Net loss	$ (524)	$(10,852)	$(11,627)
Net loss per share — basic and diluted	$ (0.03)	$ (0.57)	$ (0.51)
Weighted average shares outstanding — basic and diluted	18,460	18,970	22,667

See accompanying notes.

SPARK NETWORKS PLC
(formerly known as MatchNet plc)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)

	Ordinary shares		Additional paid-in capital	Deferred share compensation	Accumulated other comprehensive income (loss)	Accumulated deficit	Total shareholders' equity
	Shares	Amount					
BALANCE, December 31, 2001	17,937	$288	$33,458	$ —	$ —	$(20,632)	$13,114
Issuance of ordinary shares upon exercise of share options and warrants	770	11	779	—	—	—	790
Unrealized gain on marketable securities	—	—	—	—	83	—	83
Net loss	—	—	—	—	—	(524)	(524)
BALANCE, December 31, 2002	18,707	299	34,237	—	83	(21,156)	13,463
Issuance of ordinary shares upon exercise of share options and warrants	850	14	1,057	—	—	—	1,071
Unrealized loss on marketable securities	—	—	—	—	(123)	—	(123)
Share-based compensation	—	—	4,443	(2,572)	—	—	1,871
Net loss	—	—	—	—	—	(10,852)	(10,852)
BALANCE, December 31, 2003	19,557	313	39,737	(2,572)	(40)	(32,008)	5,430
Issuance of ordinary shares upon exercise of share options and warrants	4,430	77	7,603	—	—	—	7,680
Private placement of ordinary shares	600	11	3,646	—	—	—	3,657
Unrealized loss on marketable securities	—	—	—	—	(73)	—	(73)
Foreign currency translation adjustment	—	—	—	—	100	—	100
Share-based compensation	—	—	(563)	2,267	—	—	1,704
Net loss	—	—	—	—	—	(11,627)	(11,627)
BALANCE, December 31, 2004	24,587	$401	$50,423	$ (305)	$ (13)	$(43,635)	$ 6,871

See accompanying notes.

SPARK NETWORKS PLC
(formerly known as MatchNet plc)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years ended December 31,		
	2002	2003	2004
Cash flows from operating activities:			
Net loss	$ (524)	$(10,852)	$(11,627)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:			
Depreciation and amortization	1,398	1,996	3,925
Impairment of long-lived assets	—	1,532	208
Share-based compensation	—	1,871	1,704
Gain from sale of marketable securities	—	—	(3)
Changes in operating assets and liabilities:			
Accounts receivable	54	(318)	(231)
Advances to employees	(266)	1,112	227
Restricted cash	—	—	(1,330)
Prepaid expenses and other assets	781	(297)	143
Accounts payable and accrued liabilities	153	5,477	3,126
Notes payable	—	—	1,700
Deferred revenue	542	1,697	701
Net cash provided by (used in) operating activities	2,138	2,218	(1,457)
Cash flows from investing activities:			
Sale of marketable securities	3,012	5,422	3,553
Purchases of marketable securities	(5,373)	(2,033)	(3,000)
Purchases of property and equipment	(1,833)	(2,733)	(5,467)
Purchases of businesses and intangible assets	(993)	(151)	(5,077)
Purchase of noncontrolled affiliate	—	—	(1,167)
Deposit for acquisition of business	—	(2,046)	—
Net cash used in investing activities	(5,187)	(1,541)	(11,158)
Cash flows from financing activities:			
Proceeds from issuance of ordinary shares	790	1,071	15,156
Principal payments of capital lease obligations	—	(176)	(314)
Net cash provided by financing activities	790	895	14,842
Effect of exchange rate on cash	—	—	3
Net increase (decrease) in cash	(2,259)	1,572	2,230
Cash and cash equivalents at beginning of year	2,722	463	2,035
Cash and cash equivalents at end of year	$ 463	$ 2,035	$ 4,265
Supplemental disclosure of cash flow information:			
Cash paid (received) for interest	$ (320)	$ 75	$ 41
Cash paid for income taxes	$ 192	$ —	$ 1
Supplemental information of non-cash investing and financing activities:			
Equipment capital lease financing	—	$ 662	—
Forgiveness of debt in exchange for property and equipment	$ 41	—	—
Notes receivable for sale of domain names	$ 405	—	—

See accompanying notes.

SPARK NETWORKS PLC
(formerly known as MatchNet plc)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and Summary of Significant Accounting Policies

The Company

Spark Networks plc (formerly known as MatchNet plc) (the ''Company'') is a public limited company incorporated under the laws of England and Wales and our global depositary receipts are traded on the Frankfurt Stock Exchange. The Company and its consolidated subsidiaries provide Internet personals services, in the United States and internationally, whereby adults are able to post information about themselves (''profiles'') on the Company's Web sites and search and contact other individuals who have posted profiles.

Membership on 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, six and twelve-month subscriptions to members allowing them to initiate communication with other members and subscribers via the Company's confidential email communications platform. Two way communications through the Company's confidential email platform can only take place between paying subscribers.

Restatement

The Company's global depositary shares have publicly traded since the Company completed its initial public offering in June 2000. The Company files periodic reports as required by the Frankfurt Stock Exchange. In 2004, we discovered a number of errors in our 2001 and 2002 Annual Reports and restated these periods and the first nine months of 2003 in the Company's 2003 Annual Report as filed with the Frankfurt Stock Exchange.

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, pertained primarily to timing matters and had no impact on cash flow from operations or our ongoing operations. As a result of the restatement, net loss increased by $1.0 million in 2002.

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 its 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 year. The resulting gain or loss is included in Accumulated Other Comprehensive income (loss) and are excluded from net income (loss).

Revenue Recognition and Deferred Revenue

Substantially all of the Company's revenues are derived from subscription fees. Revenues are presented net of credits and credit card chargebacks. The Company recognizes 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. Subscribers pay in advance, primarily by using a credit card, and all purchases are final and nonrefundable. Fees collected in advance for subscriptions are deferred and recognized as revenue using the straight line method over the term of the subscription.

The Company derives a small amount of revenues (less than 2% in 2004 and 2003 and less than 5% in 2002) from certain promotional events. Revenues and the related expenses associated with these events are recognized at the conclusion of each event.

Barter transactions are valued based on amounts realized in similar cash transactions occurring within six months prior to the date of the barter transaction. Marketing expenses that would have been paid in cash, had these been cash arrangements, totaled $0, $66,000, and $93,000 for the years ended December 31, 2002, 2003, and 2004 respectively. The Company recorded these barter arrangements as direct marketing expense and related revenue based on actual average member acquisition costs for the respective periods.

Advertising Costs

Advertising costs are expensed as incurred. For the years ended December 31, 2002, 2003, and 2004 the Company incurred advertising costs amounting to approximately $4.8 million, $18.1 million, and $29.1 million respectively.

Cash and Cash Equivalents

All highly liquid instruments with an original maturity of three months or less are considered cash and cash equivalents.

Marketable Securities

The Company makes temporary investments of cash in liquid interest bearing accounts and marketable securities. Marketable securities are classified as available for sale, in accordance with SFAS No. 115, ''Accounting for Certain Investments in Debt and Equity Securities'', and are stated at fair market value, with any unrealized gains or losses reported as other comprehensive income (loss) under shareholders' equity in the accompanying consolidated balance sheets. Realized gains or losses and declines in value that are other than temporary, if any, on available-for-sale securities are calculated using the specific identification method and are reported in other income or expense as incurred. For the years ended December 31, 2002, 2003 and 2004, realized gains and recorded losses were insignificant.

Accounts Receivable

Accounts receivable are composed of credit card payments for membership fees pending collection from the credit card issuers. The Company provides an allowance for doubtful accounts based on the historical charge back levels experienced over the preceding twelve-month period. The allowance for doubtful accounts as of December 31, 2004 was approximately $13,000, which increased from approximately $10,000 as of December 31, 2003.

Prepaid Advertising Expenses

In certain circumstances, the Company pays in advance for Internet based advertising on other contracted Web sites, and expenses the prepaid amounts over the contract periods as the contracted Web site delivers on their commitment. The Company evaluates the realization of prepaid amounts at each reporting period, and expenses prepaid amounts if it determines that the contracted Web site will be unable to deliver on their commitment.

Web Site and Software Development Costs

The Company capitalizes 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 cost 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.

In accordance with Emerging Issues Task Force (''EITF'') 00-2 ''Accounting for Web Site Development Costs,'' the Company expenses costs related to the planning and post implementation phases of 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. For the years ended December 31, 2002, 2003, and 2004, the Company capitalized approximately $572,000, $825,000, and $658,000, respectively.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation, which is provided using the straight-line method over the estimated useful life of the asset. Amortization of leasehold improvements is calculated using the straight-line method over the remaining term of the lease. Amortization of assets recorded under capital leases is included in depreciation expense over the term of the leases. Upon the sale or retirement of property or equipment, the cost and related accumulated depreciation and amortization are removed from the Company's financial statements with the resulting gain or loss, if any, reflected in the Company's results of operations.

In October 2003 the Company changed the estimated useful life over which property and equipment are depreciated from a range of five to seven years previously used, to three years based on business developments that took place in 2003, and on management's opinion that rapid changes in technology reduced the useful life of the Company's assets.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired resulting from business acquisitions and had been amortized over a five year period using the straight-line method until 2001. On January 1, 2002, the Company adopted Statement of Financial Accounting Standards (''SFAS'') No. 142, ''Goodwill and Other Intangible Assets'', which no longer requires the periodic amortization of goodwill. As of December 31, 2003 and 2004, the Company had unamortized goodwill of approximately $2.0 million and $8.0 million respectively. Goodwill has been tested for impairment under the provisions of SFAS No. 142 and these tests indicated that there was no impairment.

Intangible Assets

Intangible assets resulting from the acquisitions of entities accounted for using the purchase method of accounting are estimated by management based on the fair value of assets received. Identifiable intangible assets are comprised mainly of purchased member and subscriber databases, domain names, and acquired technologies. Domain names were determined to have indefinite useful lives, thus, they are not amortized. Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives (three years for member databases, three months for subscriber databases and five years for acquired technologies).

Impairment of Long-lived Assets

The Company assesses the impairment of long-lived assets, which include property and equipment and identifiable intangible assets, whenever events or changes in circumstances indicate that such assets might be impaired and the carrying value may not be recoverable. Events and circumstances that may indicate that an asset is impaired may include significant decreases in the market value of an asset or common stock, a significant decline in actual and projected revenue, a change in the extent or manner in which an asset is used, shifts in technology, loss of key management or personnel, changes in the Company's operating model or strategy and competitive forces as well as other factors.

If events and circumstances indicate that the carrying amount of an asset may not be recoverable and the expected undiscounted future cash flows attributable to the asset are less than the carrying amount of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based on the present value of estimated expected future cash flows using a discount rate commensurate with the risk involved, quoted market prices or appraised values, depending on the nature of the 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 its property and equipment (mostly computer equipment and capitalized software costs), the Company recorded an impairment charge of approximately $1.5 million.

In December 2004, based on changes in management and the reevaluation of our existing projects, the Company determined that certain internally developed software projects would not be necessary to be completed. As such, the Company recorded an impairment charge of $208,000.

Income Taxes

The Company accounts for income taxes under SFAS No. 109, "Accounting for Income Taxes". Accordingly, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred taxes to the amount expected to be realized.

In assessing the potential realization of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the Company's tax loss carry-forwards remain deductible.

Direct Marketing

The Company's direct marketing expenses consist primarily of amounts the Company pays for advertising in order to generate traffic to its Web sites. These advertising costs are primarily online advertising and are directly attributable to the revenues received from paying subscribers.

Indirect Marketing

The Company's indirect marketing expenses relate primarily to salaries for sales and marketing personnel and other associated costs such as public relations.

Customer Service

The Company's customer service expenses relate primarily to the salaries and wages associated with operating the member service center, as well as depreciation expense for customer service related assets.

Technical Operations

The Company's technical operations expenses relate primarily to the people and systems necessary to support its network, Internet connectivity and other data and communication support. Also included is depreciation expense for technical operations related assets.

Product Development

The Company's product development expenses relate primarily to salaries and wages for personnel involved in the development, creation, and enhancement of its Web sites and services and depreciation expense for product development related assets.

General and Administrative

The Company's general and administrative expenses relate primarily to corporate personnel related costs, professional fees, occupancy, credit card collection fees, depreciation and other overhead costs.

Share-based Compensation

The Company accounts for share-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees", and related interpretations. Under APB No. 25, compensation expense is recognized over the vesting period based on the excess, if any, on the date of grant of the deemed fair value of the underlying shares and the exercise price on the date of grant.

The Company follows the pro forma disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation", which require presentation of the pro forma effect of the fair value based method on net income (loss) and net income (loss) per share in the notes to consolidated financial statements.

If compensation expense was determined based on the fair value at the date of grant, the Company's net loss and net loss per share for the years ended December 31, 2002, 2003 and 2004 would have been as follows (all amounts are in thousands, except per share data):

	Year ended December 31,		
	2002	2003	2004
Net loss, as reported	$ (524)	$(10,852)	$(11,627)
Add-back: Total employee share compensation recorded in the accompanying consolidated statements of operations	—	75	367
Less: Total compensation as if the fair value method was used, net of tax effect	(4,335)	(4,645)	(4,921)
Pro forma net loss	$(4,859)	$(15,422)	$(16,181)
Net loss per common share:			
As reported	$ (0.03)	$ (0.57)	$ (0.51)
Pro forma	$ (0.26)	$ (0.81)	$ (0.71)

In accordance with SFAS No. 123, 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:

	Year ended December 31,		
	2002	2003	2004
Expected life in years	4	4	4
Dividend per share	—	—	—
Volatility	83.3%	75.4%	76.2%
Risk-free interest rate	4.0%	2.0%	3.5%

The Company accounts for shares issued to non-employees in accordance with the provisions of SFAS No. 123 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 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.

The effect of share options and warrants on diluted weighted average shares outstanding has been excluded from the calculation of loss per share for the years ended December 31, 2002, 2003, and 2004 because it would have been anti-dilutive. Had the Company's net income been positive for the years ended December 31, 2003 and 2004, the weighted average shares outstanding for the diluted earnings per share calculation would have been approximately 26.4 million and 26.9 million shares, respectively, using the treasury stock method.

Comprehensive 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 loss, the net unrealized gains or losses on marketable securities and translation adjustments. Comprehensive loss for each of the periods presented is comprised as follows:

	Year ended December 31,		
	2002	2003	2004
Net loss	$(524)	$(10,852)	$(11,627)
Changes in unrealized gains/losses in available for sale securities	83	(123)	(73)
Foreign currency translation adjustments	—	—	100
Total comprehensive loss	$(441)	$(10,975)	$(11,600)

Accumulated Other Comprehensive Income (loss) consists of the following (in thousands):

	December 31,	
	2003	2004
Gain/loss on marketable securities	(40)	(113)
Foreign currency translation	—	100
	(40)	(13)

Fair Value of Financial Instruments

The Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, notes payable and obligations under capital leases are carried at cost, which approximates their fair value due to the short-term maturity of these instruments and the relatively stable interest rate environment.

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.

Recent Accounting Developments

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123R 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. SFAS No. 123R is effective for public companies for interim or annual reporting periods beginning after June 15, 2005. Consequently, it will apply to us for the quarter commencing on July 1, 2005. In adopting SFAS No. 123R, the Company plans to use the modified prospective transition method.

Since the Company will be required to expense the fair value of its share options, rather than disclosing the pro forma effect on the results of operations within the footnotes, reported earnings per share will decrease, which could negatively impact the Company's future share price. In addition, this could impact the Company's ability to utilize broad based employee share plans to reward employees and could result in competitive disadvantage to the Company in the employer marketplace.

2. Income Taxes

Current state income tax expense was $1,600 for the year ended December 31, 2004 and was less than $1,000 for each of the years ended December 31, 2003 and 2002. Federal income tax expense was $0 for each of the tax years ended December 31, 2002, 2003, and 2004. The Company's effective tax rate differs from the statutory federal income tax rate of 35% as per the following table:

	Year ended December 31,		
	2002	2003	2004
Provision on earnings at federal statutory rate	(35.0)	(35.0)	(35.0)
State tax provision, net of federal tax effect	(6.0)	(6.0)	(7.6)
Permanent items and other	—	—	(1.3)
Valuation allowance	41.0	41.0	43.9
Total provision (benefit) for income taxes	—	—	—

Although the Company is incorporated as a public limited company in the United Kingdom, the majority of its global operations are currently subject to tax in the U.S. As a result, the Company believes it is more appropriate to use the U.S. Federal statutory rate in its reconciliation of the statutory rate to its reported income tax rate.

The components of the deferred income tax asset for the periods presented are as follows:

	Year ended December 31,		
	2002	2003	2004
	(amounts in thousands)		
Deferred income tax assets (liabilities)			
Net operating loss carry-forward	$ 4,700	$ 7,810	$ 18,131
Depreciation and amortization	1,873	1,388	2,274
Compensation accruals	35	994	1,574
Accruals and reserves	90	750	878
State taxes	(409)	(613)	(1,555)
Gain/(Loss) on disposal of assets	(607)	(607)	(129)
Excess capital loss over capital gain	605	605	605
Credits	—	—	204
Other	521	501	93
Total before valuation allowance	6,808	10,828	22,075
Less: Valuation allowance	(6,808)	(10,828)	(22,075)
Total deferred income tax asset	$ —	$ —	$ —

Due to the uncertainty surrounding the timing of realizing the benefits of its deferred tax assets in future tax returns, the Company has recorded a valuation allowance against its deferred tax assets. The valuation allowance increased by approximately $11.2 million for year ended December 31, 2004. Approximately $6.4 million of this increase is attributable to deductions associated with the exercise of stock options. The remaining increase is attributable to current operations. If there is a reversal of the valuation allowance associated with these items, such reversal will be credited directly to equity.

At December 31, 2004, the Company has gross net operating loss carry-forwards of approximately $42.0 million and $38.0 million available to reduce future federal and state taxable income, respectively, which expire beginning in the years 2018 through 2023 for federal and in 2005 through 2013 for state purposes. 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 the 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 the Company's ability to realize the benefit in the future.

3. Acquisitions of Businesses

Point Match

On January 16, 2004, the Company acquired the assets of Point Match Ltd., an Israeli corporation, in exchange for cash of $6.3 million of which $2.0 million was placed in escrow in 2003. This transaction was recorded under the purchase method of accounting with $5.7 million being allocated to goodwill, $560,000 to databases, and $30,000 to domain name.

The following unaudited pro forma financial information presents the combined results of the Company and Point Match Ltd. as if the acquisition had occurred as of January 1, 2003, after applying certain adjustments (in thousands, except per share amounts):

	Year ended December 31,	
	2003	2004
Net revenues	$ 39,051	$ 65,138
Net income (loss)	$(12,176)	$(11,671)
Net income (loss) per share:		
Basic and diluted	$ (0.64)	$ (0.51)

Duplo AB

On September 9, 2004, the Company acquired a 20% interest in Duplo AB for approximately $1.2 million including professional fees related to the transaction. The Company has the right but not the obligation to acquire the remaining 80% interest of Duplo AB by September 9, 2006. The Company also has the right, but not the obligation, to sell back its shares for the full purchase price, or an amount exceeding the full purchase price, within 18 months from September 9, 2004. The Company received two of five board seats in connection with the purchase. Given the Company's ownership, and Board representation, the Company has accounted for its ownership interests under the equity method of accounting.

Duplo AB owns and operates Playahead.com, a robust community site primarily focused on the Swedish market, whose members range in age primarily from 16-35.

Our investment in Duplo AB was approximately $1.0 million higher than our ownership interest in their net assets at December 31, 2004. This amount is considered goodwill and is recorded on the balance sheet as an investment in non-controlled affiliate. The Company has recorded earnings of $14,000 in 2004 related to its investment in Duplo AB.

In connection with the acquisition, the Company entered into a two year operating agreement with Duplo AB to provide them with quarterly payments for engineering services related to the enhancement of one of our Web sites. The agreement calls for quarterly payments of $120,000 in advance commencing on January 1, 2005 ($60,000 for the quarter ended December 31, 2004). The agreement, if extended, calls for the Company to pay Duplo AB a one time fee of $150,000 for each Company Web site using the technology licensed under this agreement as well as an annual license fee of $20,000 per Web site using the technology.

4. Employee and Officer Advances

The Company provided short-term advances to employees to facilitate the exercise of Company share options, in what was equivalent to a cashless exercise. The employees repay the advances immediately after they receive the proceeds from the sale of the shares purchased from the exercise of the Company share options. As of December 31, 2003, and 2004, the Company had advances receivable from employees of approximately $450,000 and $223,000, respectively.

Advances to executives of $1.4 million as of December 31, 2002 represent bonus advances under long-term guaranteed compensation arrangements, which were made to certain of the Company's officers. During 2003, the Board of Directors declared that the guarantees were considered to have been earned during the year. As a result, the amounts were expensed in the accompanying consolidated statement of operations for the year ended December 31, 2003.

5. Property and Equipment

Property and equipment consists of the following (amounts in thousands):

	As of December 31,	
	2003	2004
Computer equipment	$ 2,960	$ 4,228
Computer software	4,009	7,475
Furniture, fixtures, and equipment	261	593
Leasehold improvements	292	390
	7,522	12,686
Less: Accumulated depreciation	(3,249)	(6,219)
	$ 4,273	$ 6,467

Depreciation expense for the years ended December 31, 2002, 2003, and 2004, was $874,000, $1.4 million and $3.1 million, respectively.

Computer equipment as of December 31, 2003 and 2004 includes $662,000 of assets purchased under capital leases.

6. Goodwill and Other Intangible Assets

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002. Under the provisions of SFAS No. 142, amortization of goodwill ceased and the remaining book value is tested for impairment at least annually at the reporting unit level using a two step impairment test. The Company determined the fair value of each reporting unit and compared it to the carrying amount of the reporting unit. No impairment charges resulted from this evaluation since the fair value of each reporting unit exceeded the carrying amount.

Goodwill of $2.0 million as of December 31, 2003 and $8.0 million as of December 31, 2004 is mainly related to the purchase of the PointMatch Ltd. business in January 2004 and AmericanSingles and JDate businesses in 1999.

Finite-lived intangible assets consist of purchased databases and technologies, and are amortized over the expected periods of benefits (three years for member databases, three months for subscriber databases and five years for technologies). Indefinite-lived intangible assets consist of purchased domain names and, in accordance with the provisions of SFAS No. 142, are not amortized. Intangible assets consists of the following at the following periods (amounts in thousands):

	At December 31,			
	2003		2004	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Member databases	$1,717	$1,247	$2,277	$1,913
Purchased technologies	757	563	757	757
Domain names	323	—	705	—
Total	$2,797	$1,810	$3,739	$2,670

Amortization expense for finite-lived intangible assets for the years ended December 31, 2002, 2003 and 2004 was $524,000, $555,000, and $860,000, respectively. Amortization expense is expected to be $201,000, $124,000 and $37,000 for 2005, 2006 and 2007, respectively.

In 2002, the Company sold certain domain names that were not in use. As a result of these sales, a gain of $400,000 was recorded in interest (income) and other expenses, net in the accompanying consolidated statement of operations for the year ended December 31, 2002.

7. Accrued Liabilities

Accrued liabilities consist of the following:

	December 31,	
	2003	2004
Advertising	$1,406	$3,356
Loss contingencies	1,700	2,280
Software & service agreement	—	920
Other accrued liabilities	1,449	1,496
Total	$4,555	$8,052

In 2003, a loss contingency of $1.7 million was accrued as a current liability. This contingency was offset in 2004 by a note payable, as discussed in Note 9 below, upon settlement of litigation.

Included in loss contingencies in 2004 is an accrual for $1.7 million related to the value of shares that will be issued in 2005 pursuant to the settlement of a contract dispute (that existed prior to December 31, 2004) between the Company and a partner, and $400,000 paid in March 2005 to settle the Company's litigation with LiveWorld Inc. See further discussion regarding LiveWorld Inc. in Note 13 — Commitments and Contingencies.

8. Obligations Under Capital Leases

The Company leases certain office equipment under capital lease agreements effective through October 2005, providing for minimum lease payments for the year ending December 31, 2005 of approximately $173,000.

The Company's total payments under capital lease agreements were approximately $314,000 in 2004.

9. 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 (a) September 15, 2005 in the amount of $400,000; (b) September 15, 2006 in the amount of $400,000; and (c) September 15, 2007 in the amount of $900,000.

10. Shareholders' Equity

In January 2004, the Company completed a private placement of its ordinary shares selling 600,000 shares to qualified investors, at approximately $6.17 per share, with net proceeds to the Company of approximately $3.7 million. The Company did not incur any significant costs in connection with the sale of these shares.

In February 2004, certain shareholders of the Company sold ordinary shares to a major shareholder of the Company and in connection therewith, the purchasing major shareholder agreed not to purchase any additional ordinary shares or securities of the Company until the earlier of June 30, 2005, or the listing of the Company's ordinary shares or securities on the Nasdaq National Market System, unless otherwise approved by the Company's board of directors. The Company also agreed to grant the purchasing major shareholder registration and participation rights, as favorable as the Company may grant to any other party, in connection with the registration of the Company's ordinary shares or

other securities. In addition, the purchasing major shareholder agreed to deliver a proxy for 1.5 million shares to one of the selling shareholders in connection with voting rights at any shareholder meeting.

Warrants

In 1999 and in connection with an offering of the Company's ordinary shares, warrants were issued for approximately 800,000 ordinary shares at an exercise price of $1.24 per share. The Company may call the warrants, if for a period of twenty consecutive business days the shares have been traded at a price equal to not less than 125% of the exercise price. Warrants were exercised for 34,000 shares in 2003 and 124,000 shares in 2004, with net proceeds to the Company of approximately $41,000 in 2003 and $171,000 in 2004. In 2002 and prior years 609,000 warrants were exercised. As of December 31, 2004, warrants for 33,000 shares remain outstanding and exercisable through their expiration date of January 15, 2005.

In August 2003, the Company agreed to issue warrants to consultants to subscribe for up to 1,000,000 shares of the Company's ordinary shares at an exercise price of $2.50 per share. Of these warrants, 500,000 vested immediately and were exercisable and non-forfeitable; however, a warrant certificate was never issued yet the warrants were treated as issued and outstanding in our financial statements. The Company recorded expense of approximately $1.1 million in 2003, related to the 500,000 vested warrants. In December 2004, the Company agreed to accelerate vesting of 250,000 of the remaining 500,000 unvested warrants, and cancel the remaining 250,000 unvested warrants. Accordingly, the Company issued a warrant certificate for 750,000 shares. Prior to the vesting of the 250,000 warrants in December 2004, the Company treated the 500,000 unvested warrants as variable and, accordingly, recorded expenses in 2003 and 2004 of approximately $505,000 and $914,000, respectively. Because the warrants fully vested in December 2004, a final valuation and related expense was recorded in 2004 in the amount of $955,000. Since the Company was accounting for the warrants as variable accounting, the accounting modification resulting from the acceleration of the 250,000 warrants was insignificant, and the cancellation of the remaining 250,000 warrants resulted in reversing previously recognized expense in the amount of $710,000. As a result of the December 2004 vesting, the Company is no longer required to recognize an increase or decrease in compensation expense based on the then fair value of such warrants. As of December 31, 2004, 750,000 warrants (including the 500,000 warrants that vested in July 2003 and the remaining 250,000 that vested in December 2004), which expire in 2007 are vested and outstanding.

Employee Share Option Schemes

The Company has two share option schemes, the MatchNet plc 2000 Executive Share Option Scheme (the 2000 Plan) and Spark Networks plc 2004 Share Option Scheme (the 2004 Plan and, collectively, with the 2000 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 are based on the estimated 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 Plan. However, pursuant to the provisions of the 2000 Plan, all outstanding options previously granted under the 2000 Plan continue in full force and effect. The Company intends to use the 2004 Plan to grant options to employees, consultants, and directors 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 15,503,000 shares available for future grant as of December 31, 2004.

In July 2003, options were issued to consultants for the purchase of up to 225,000 ordinary shares at an exercise price of $1.90 per share. The Company treated these options as variable and accordingly recorded expenses in 2003 of approximately $219,000 resulting from this transaction. This transaction also resulted in a deferred share compensation balance of approximately $767,000 at December 31, 2003. Of these options, 150,000 were cancelled in the third quarter of 2004 when our relationship with a consultant was terminated and as a result, expense and deferred compensation previously recognized in the amount of $378,000 was reversed. This resulted in a net charge of $22,000 in 2004. During 2004, the remaining 75,000 options were treated as fixed due to a change in employee status. In 2004 the Company recorded expenses of $156,000 related to the variable treatment of the 75,000 options.

In July 2003 and April 2004, loans were made to employees for the exercise of 100,000 and 15,000 options respectively. The loans were 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 2003 and 2004, the Company recorded expenses of approximately $75,000 and $367,000 resulting from these transactions. These transactions also resulted in a deferred share compensation balance of approximately $286,000 and $182,000 at December 31, 2003 and 2004, respectively. On a quarterly basis, the Company will be required to continuously recognize an increase or decrease in compensation expense based on the fair value of such options.

Information relating to outstanding share options is as follows:

	Number of shares	Weighted average price per share
	(in thousands)	
Outstanding at December 31, 2000	2,345	$4.57
Granted	3,460	$1.35
Exercised	(100)	$0.89
Cancelled	(1,000)	$3.19
Outstanding at December 31, 2001	4,705	$2.58
Granted	6,043	$2.11
Exercised	(160)	$0.99
Cancelled	(65)	$1.56
Outstanding at December 31, 2002	10,523	$2.34
Granted	1,367	$2.41
Exercised	(816)	$1.39
Cancelled	(765)	$3.33
Outstanding at December 31, 2003	10,309	$2.35
Granted	5,302	$6.42
Exercised	(4,308)	$2.64
Cancelled	(2,306)	$6.54
Outstanding at December 31, 2004	8,997	$3.81

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

The following summarizes information relating to share options outstanding and exercisable at December 31, 2004. On March 27, 2004 a change of control triggered the immediate vesting of certain options when Tiger Technologies acquired more than a 30% share ownership in our Company. Amounts in thousands, except price per share data:

	Options outstanding			Options exercisable	
Range of exercise prices	Number of shares	Weighted average remaining life (years)	Weighted average exercise price	Number of shares	Weighted average exercise price
$2.31 to $12.01	4,218	4	$5.68	561	$4.66
$2.28	4,060	1	$2.28	4,060	$2.28
$0.96 to $2.11	719	0	$1.46	679	$1.42
	8,997		$3.81	5,300	$2.42

The following summarizes information relating to share options outstanding and exercisable at December 31, 2003.

	Options outstanding			Options exercisable	
Range of exercise prices	Number of shares	Weighted average remaining life (years)	Weighted average exercise price	Number of shares	Weighted average exercise price
$2.28 to $7.50	1,020	2	$6.50	910	$6.83
$1.40 to $2.27	6,914	3	$2.11	200	$2.16
$0.89 to $1.39	2,375	2	$1.26	2,340	$1.26
	10,309		$2.35	3,450	$2.78

Shares Subject to Rescission

Under our 2000 Executive Share Option Scheme ("2000 Option Scheme"), 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 Scheme 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 we 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. With respect to option grants under the 2000 Option Scheme where the holder exercised all or a portion of the options and sold all of the securities issued upon the exercise of such options on the Frankfurt Stock Exchange following exercise, the Company believes that each of these persons sold for prices in excess of the applicable option exercise prices. Therefore, the Company does not believe that any such person has a claim for damages under federal or California state securities laws.

As of December 31, 2004, 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, the Company estimates the total cost to complete the rescission for such issued securities would be approximately $3.6 million, excluding statutory interest, and $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 the Company upon exercise of their 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 and its related interpretations. Under the SEC's interpretation of GAAP, reporting such claims outside of stockholders' equity is required, regardless of how remote the redemption event may be. Thus, the Company has reported $3.8 million as Shares subject to rescission in the accompanying December 31, 2004 consolidated balance sheet.

In addition to shares which have resulted from stock option exercises, it is possible that option grants under the 2000 Option Scheme, which have not yet been exercised, 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 but who have not yet exercised those options. 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.

Prior to the implementation of FAS 123R in July, 2005 the Company has accounted for stock options under APB 25. Since all of the options under the 2000 Option Scheme were granted at fair market value at the time of grant, no expense or equity is recorded on our financial statements related to these options. Accordingly, no provision is made on our financial statements of December 31, 2004 for options that were granted under the 2000 Option Scheme 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 on our financial statements at that time.

As of December 31, 2004, 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 $4.0 million, excluding statutory interest at 7% per annum. This amount 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 options.

11. Employee Benefit Plan

The Company has a defined contribution plan under Section 401(k) of the Internal Revenue Code covering all full-time employees, and providing for matching contributions by the Company, as defined in the plan. Participants in the plan may direct the investment of their personal accounts to a choice of mutual funds consisting of various portfolios of stocks, bonds, or cash instruments. Contributions made by the Company to the plan for the years ended December 31, 2002, 2003 and 2004 were approximately $88,000, $110,000, and $184,000, respectively.

12. Segment Information

The Company operates several online personal websites that we have aggregated into three reportable segments: (1) JDate, which consists of our JDate.com Web site and its co-branded Web sites, (2) AmericanSingles, which consists of our AmericanSingles.com Web site and its co-branded Web sites, and (3) Other Businesses, which consist of all our other Web sites 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 Web sites into the Other Businesses segment. This segment data represents a change in the manner in which the Company's chief decision maker has historically viewed the business, which was as a single operating segment. As a result of this

change occurring in the fourth quarter of 2004, we have presented resegmented information for all periods presented. Information for our segments is as follows (in thousands):

	Net revenues	Direct marketing expenses	Contribution margin	Unallocated operating expenses	Operating loss
Year Ending December 31, 2004					
JDate	$23,820	$ 1,740	$22,080		
AmericanSingles	35,224	24,954	10,270		
Other Businesses	6,008	4,546	1,462		
Corporate				$ 45,504	
Total	$65,052	$31,240	$33,812	$ 45,504	$(11,692)
Year Ending December 31, 2003					
JDate	$16,091	$ 739	$15,352		
AmericanSingles	19,253	15,887	3,366		
Other Businesses	1,597	1,769	(172)		
Corporate				$ 29,586	
Total	$36,941	$18,395	$18,546	$ 29,586	$(11,040)
Year Ending December 31, 2002					
JDate	$ 8,372	$ 224	$ 8,148		
AmericanSingles	6,644	3,970	2,674		
Other Businesses	1,336	1,202	134		
Corporate				$ 12,320	
Total	$16,352	$ 5,396	$10,956	$ 12,320	$ (1,364)

Due to our integrated business structure, operating expenses, other than direct marketing expenses, are not allocated to the individual reporting segments. As such, we do 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 unallocated in total operating expenses in the individual line items to which the assets provide service. As of December 31, 2004, the Company has unamortized goodwill of $587,000, $1.8 million and $5.6 million related to its JDate segment, AmericanSingles segment, and Other Businesses segment, respectively.

13. Commitments and Contingencies

Operating Leases

The Company leases its office facilities under operating lease agreements effective through March 2007, providing for annual minimum lease payments as follows (amounts in thousands):

Year Ending	
2005	$ 711
2006	589
2007	85
Total	$1,385

The Company recognized rent expense under operating leases of $246,000, $444,000, and $847,000 for the years ended December 31, 2002, 2003, and 2004, respectively.

Other Commitments and Obligations

The Company has other commitments and obligations consisting 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.

Litigation

Two separate yet similar class action complaints have been filed and are pending against our Company. On June 21, 2002, Tatyana Fertelmeyster filed an Illinois class action complaint against our Company in the Circuit Court of Cook County, Illinois, based on an alleged violation of the Illinois Dating Referral Services Act. In *Jason Adelman v. MatchNet plc, Los Angeles Superior Court Case No. BC 306167*, the plaintiff filed a nationwide class action complaint against our Company 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 alleged that our Company was a dating service and, as an alleged dating service, our Company is required to provide language in our contracts that allows members to rescind their contracts within three days, that allows reimbursement of a portion of the contract price if the member dies during the term of the contract and/or that allows 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 brought against InterActiveCorp's Match.com that has been ruled related to *Adelman,* but the two cases have not been consolidated. *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, and a hearing will be scheduled to determine whether, as matter of law, the California Dating Services Act applies to our business. If the court determines that the Act is inapplicable, all further expenses associated with discovery and class certification can be avoided.

The Company has filed a motion for summary judgment and the court has certified an Illinois class in the case brought by Ms. Fertelmeyster. The purported class includes all of our members in Illinois for the five years preceding the filing of the action.

The Company believes that each of the plaintiffs' purported class action lawsuits is without merit and will defend against each of them vigorously. No assurance can be given, however, that these matters will be resolved in the Company's favor.

On July 13, 2001, Liveworld, Inc. filed a complaint in the Santa Clara County Superior Court in California against the Company and SocialNet, Inc. In February 2001, the Company purchased the outstanding shares of SocialNet pursuant to a share exchange agreement. The plaintiff contended that the Company assumed the obligations of SocialNet pursuant to a letter agreement to purchase $1.5 million of services from the plaintiff and that the Company failed to purchase the services and induced SocialNet to breach the letter agreement with the plaintiff. The complaint, as amended, alleged breach of contract, breach of implied covenant of good faith and fair dealing, quantum meruit, fraud, intentional interference with contract and fraudulent transfers. The plaintiff sought compensatory damages in the approximate amount of $1.1 million plus interest and punitive damages. In July 2002, the Company filed a cross-complaint for declaratory relief and rescission and, in November 2002 the Company filed a demurrer on the interference with contract claim, which was overruled. In September 2003, the Company moved for summary judgment, which was denied. The court had scheduled a trial

date in March 2005, however in February 2005 the Company settled this litigation for $400,000, which was paid in March 2005.

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

14. Related Party Transactions

Pursuant to then-existing compensation arrangements, the Company made advances to two executive employees, Joe Y. Shapira and Alon Carmel, of approximately $700,000 each as payments under guaranteed compensation arrangements as of December 31, 2002. During 2003, the Board of Directors declared the guarantees to have been earned during the year and the receivable was charged against operating results. As of December 31, 2003, Joe Y. Shapira was the Chief Executive Officer and is currently the Executive Chairman of the Board. Alon Carmel was the President as of December 31, 2003 and is no longer employed by the Company.

In 2003, the Company entered into a verbal marketing arrangement with Remote Concepts LLC, an entity owned 32.5% by each of Joe Y. Shapira and Alon Carmel. Remote Concepts LLC has developed a table top wireless paging system for use by patrons at restaurants. Further to the verbal arrangement, the Company expensed $120,000 paid to Remote Concepts LLC for ad placement on these systems.

In 2004, Adam Kravitz resigned as our General Counsel. In connection with his resignation and further to the terms of his employment agreement, the Company paid Mr. Kravitz as severance an aggregate of approximately $2.4 million. Mr. Kravitz resigned from the Board of Directors in June 2004.

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 our online paid search and keyword procurement efforts. The Chief Executive Officer of Efficient Frontier is Ms. Ellen Siminoff, who is the wife of the current Chief Executive Officer, David E. Siminoff. The Company paid approximately $61,000 to Efficient Frontier in 2004. The Company has a contract with Efficient Frontier that calls for minimum payments of $6,000 per month through July 2005.

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 will convert into equity upon Yobon's completion of an equity financing, if such equity financing is completed within certain timeframes. The Chief Technology Officer, Phil Nelson, is the Chairman of Yobon.

Several relatives of each of Joe Y. Shapira, our Executive Chairman of the Board, and Alon Carmel, the Company's former Co-Executive Chairman of the Board, hold non-executive positions with our Company and Spark Networks Israel.

Note 15. Subsequent Event (Unaudited)

On April 20th, 2004, the Company's Board of Directors authorized the exercise of the call option the Company holds to purchase the remaining 80% of Duplo AB that the company does not already own. The purchase price for these remaining shares is $4 million. Duplo AB was formally notified of the authorization to purchase. The original agreement, including the purchase option is discussed in Note 3, Acquisitions of Businesses. The Company expects the purchase to be completed in the second quarter of 2005.