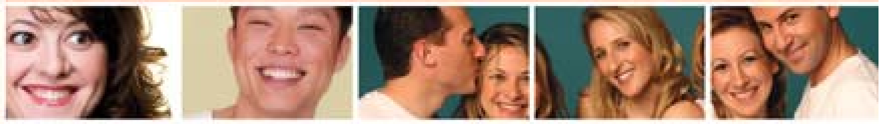

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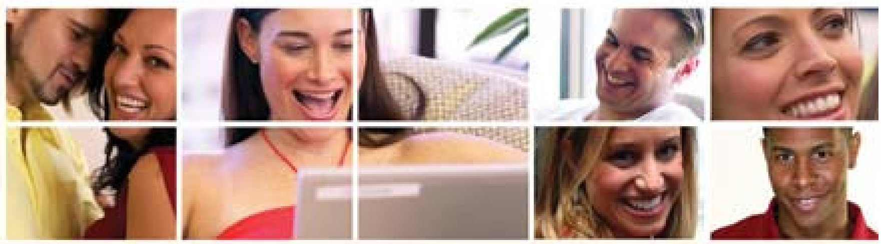

2005 First Quarter Report

SPARK NETWORKS, PLC

BUSINESS AND OUTLOOK

On March 10, 2005, Spark Networks announced that it filed a registration statement, on Form S-1, with the United States Securities and Exchange Commission (SEC) for a proposed public offering. As a result of the filing, the Company is in a "quiet period" which extends from the time a company files a registration statement with the SEC until the SEC staff declares the registration statement "effective." During this period, as dictated by United States securities laws, the Company is limited in the amount of information that it can release to the public and unable to legally provide any further outlook.

Our Business

We are a leading provider of online personals services in the United States and internationally. Our Web sites enable adults to meet online and participate in a community, become friends, date, form a long-term relationship or marry. We provide this opportunity through the many features on our Web sites, such as detailed profiles, onsite email centers, real-time chat rooms and instant messaging services. 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 March 31, 2005, we had approximately 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 three months ended March 31, 2005, we had approximately 222,600 average paying subscribers, representing an increase of 7.4% from the same period in 2004.

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 2004, the Personals/Dating category held its position as the leading paid content category, with a spending at approximately $470 million, according to the Online Publishers Association.

Our Competitive Strengths

- ***Critical Mass of Members.*** We had approximately 10 million members as of March 31, 2005. 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 of which over 300,000 are in the United States. 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

- *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 quarter ended March 31, 2005 were generated from travel and events.

Business Strategy

We intend to grow our subscription-based revenue by driving additional traffic to our Web sites, 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 approximately 10 million members as of March 31, 2005, and approximately 222,600 average paying subscribers for the quarter ended March 31, 2005. 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 March 31, 2005, we employed 41 customer service representatives at our Beverly Hills, California facility and 13 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 37 employees as of March 31, 2005, who are focused on expanding and improving the features and functionality of our Web sites. Since feature and functionality development is an important element of our strategy, we plan to expand that team. In addition to our development team, an additional 30 technology employees maintain our software and hardware infrastructure.

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

We are in the process of completing a re-architecture of our 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 9 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 March 31, 2005, we had 168 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

Three separate yet similar class action complaints have been filed 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. On September 12, 2002, Lili Grossman filed a New York class action complaint against our Company 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 our Company in the Los Angeles County Superior Court based on an alleged violation of California Civil Code section 1694 et seq., which regulates businesses that provide dating services. In each of these cases, the complaint included allegations that alleged that our Company was a dating service as defined by the applicable statutes 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. On July 15, the parties will submit to the court in *Adelman* proposed stipulated facts, opening briefs, and related trial exhibits. On August 15, a status conference will be held in *Adelman* for the purpose of scheduling a hearing to determine whether, as a 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.

On March 25, 2005, the court in *Fertelmeyster* entered its Memorandum Opinion and Order ("Memorandum Opinion") granting summary judgment in favor of our Company on the grounds that Fertelmeyster lacks standing to seek injunctive relief or restitutionary relief under the Illinois Dating Services Act, Fertelmeyster did not suffer any actual damages, and our Company was not unjustly enriched as a result of its contract with Fertelmeyster. The Memorandum Opinion "disposes of all matters in controversy" in the litigation and also provides that our Company is subject to the Illinois Dating Services Act and as such, our subscription agreements violate the act and are void and unenforceable. Fertelmeyster has filed a Motion for Reconsideration of the Memorandum Opinion which is scheduled for hearing on June 21, 2005.

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

We believe 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 our favor.

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 resolutions 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.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and the related notes that are included in this Quarterly Report.

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

General

We are a leading provider of online personals service in the United States and internationally. Our websites enable adults to meet online and participate in a community, become friends, date, form a long-term relationship or marry.

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 our other Web sites and businesses.

	First Quarter Ended March 31,	
	2005	2004
	(in thousands)	
Net Revenues:		
JDate	$ 6,468	$ 5,867
AmericanSingles	8,097	8,520
Other Businesses	1,961	663
Total	$ 16,526	$ 15,050
Direct Marketing Expenses:		
JDate	$ 503	$ 335
AmericanSingles	3,258	5,532
Other Businesses	1,467	672
Total	$ 5,228	$ 6,539
Contribution Margin:		
JDate	$ 5,965	$ 5,532
AmericanSingles	4,839	2,988
Other Businesses	494	(9)
Total	$ 11,298	$ 8,511

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 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 Costs:*** 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 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.

	First Quarter Ended March 31,	
	2005	2004
Average Paying Subscribers (in thousands):		
JDate	70.4	72.3
AmericanSingles	121.6	126.9
Other Businesses	30.6	8.1
Total	222.6	207.3
Average Monthly Net Revenue per Paying Subscriber:		
JDate	$30.61	$27.04
AmericanSingles	22.19	22.37
Other Businesses	18.33	17.94
All Segments	24.32	23.83
Direct Subscriber Acquisition Cost:		
JDate	$9.01	$5.71
AmericanSingles	25.61	35.75
Other Businesses	46.97	32.14
All Segments	23.84	27.82
Monthly Subscriber Churn:		
JDate	26.0%	26.0%
AmericanSingles	35.8	35.8
Other Businesses	28.6	27.2
All Segments	31.7	32.1

Results of Operations

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

	First Quarter Ended March 31, 2005	First Quarter Ended March 31, 2004
Net Revenues	100.0%	100.0%
Direct Marketing	31.6	43.4
Contribution Margin	68.4	56.6
Operating expenses:		
Indirect marketing	1.6	3.5
Customer service	3.5	6.5
Technical operations	8.5	8.9
Product development	5.0	2.3
General and administrative (excluding share-based compensation)	36.3	42.4
Share-based compensation	0.5	11.4
Amortization of intangible assets other than goodwill	0.7	1.6
Total operating expenses	56.1	76.6
Operating income (loss)	12.3	(20.0)
Interest (income)expense and other expenses, net	(0.1)	0.1
Income (loss) before income taxes	12.4	(20.1)
Provision for income taxes	0.3	0.0
Net income (loss)	12.1%	(20.1)%

Business Metrics

Average paying subscribers for the JDate segment decreased 2.6% to approximately 70,400 in the quarter ended March 31, 2005 compared to 72,300 in the same period last year. Average paying subscribers for the AmericanSingles segment decreased 4.2% to 121,600 in the quarter ended March 31, 2005 compared to 126,900 in the quarter ended March 31, 2004. Average paying subscribers for Web sites in our Other Businesses segment increased 277.8% to 30,600 in the quarter ended March 31, 2005 compared to 8,100 in the quarter ended March 31, 2004. The decrease in average paying subscribers for AmericanSingles is due to a decline in the total marketing spending in 2005 compared to 2004. The decrease in average paying subscribers for JDate is due to a decline in conversion rates. The increase in average paying subscribers for our other web sites is due primarily to the acquisition of PointMatch in January 2004 and the launch of our Cupid website in Israel, as well as an increase in the international Web sites which began operations in early 2004.

Average monthly net revenue per paying subscriber for the JDate segment increased13.2% to $30.61 in the quarter ended March 31, 2005 compared to $27.04 in the same period in 2004. The increase was due to an increase in net revenue associated with new subscriptions at a higher price point, offset by the decline in average paying subscribers as discussed above. Average monthly net revenue per paying subscriber for the AmericanSingles segment decreased slightly to $22.19 in the first quarter of 2005 from $22.37 in 2004. This decrease was primarily due to the decrease in average paying subscribers as discussed above, particularly related to those members paying full one month subscription prices. Average monthly net revenue per paying subscriber for Web sites in our Other

Businesses segment increased 2.2% to $18.33 in the quarter ended March 31, 2005 compared to $17.94 in the quarter ended March 31, 2004. The increase was due to growth at higher price points in our international websites.

Direct subscriber acquisition cost for JDate increased 57.8% to $9.01 in the quarter ended March 31, 2005 compared to $5.71 in the same period in 2004. The increase in direct subscriber acquisition costs for JDate is due to new marketing initiatives for the JDate site in order to attract new subscribers. Direct subscriber acquisition costs for AmericanSingles decreased 28.4% to $25.61 in the quarter ended March 31, 2005 compared to $35.75 in the quarter ended March 31, 2004 due to a decrease in marketing spend associated with the AmericanSingles Web site as well as increased conversion rates. Direct subscriber acquisition cost for the Web sites in our Other Businesses segment increased 46.1% to $46.97 in the first quarter of 2005 compared to $32.14 in the first quarter of 2004. The increase in direct subscriber acquisition costs for our Other Businesses segment is due to an increased marketing effort to attract new subscribers to the Web sites that were launched in early 2004.

Monthly subscriber churn for JDate remained consistent at 26.0% in the quarter ended March 31, 2005. Monthly subscriber churn for AmericanSingles remained at 35.8% in the quarter ended March 31, 2005. Monthly subscriber churn for the Web sites in our Other Businesses segment increased to 28.6% in the quarter ended March 31, 2005 compared to 27.2% in 2004.

Net Revenues

Substantially all our net revenues are derived from subscription fees. The remainder of our net revenues, accounting for less than 2% of net revenues for the quarters ended March 31, 2005 and 2004, are attributable to certain promotional events. Revenues are presented net of credits and credit card chargebacks. Our subscriptions are offered in durations of one, three, six and twelve months. Plans with durations longer than one month are available at discounted rates. Most subscriptions renew automatically for subsequent periods until subscribers terminate them.

Net revenues for JDate increased 10.2% to $6.5 million in the first quarter of 2005 compared to $5.9 million in 2004. The increase in net revenues for JDate is due to an increase in pricing in mid-2004 which contributed to increased revenues despite the decline in average paying subscribers discussed above. Net revenues for AmericanSingles decreased 5.0% to $8.1 million in the quarter ended March 31, 2005, compared to $8.5 million in 2004. The decrease in AmericanSingles net revenue is due to the decrease in average paying subscribers as discussed above. Net revenues for our Other Businesses segment increased 195.8% to $2.0 million in the first quarter of 2005 compared to $663,000 in 2004. The increase in net revenues for our Other Businesses is attributed to the growth of our international Web sites which were launched in early 2004.

Direct Marketing Expenses

Direct marketing expenses for JDate increased 50.1% to $503,000 in the first quarter of 2005 compared to $335,000 in 2004. The increase in marketing spend was due to new marketing initiatives for JDate. Direct marketing expenses for AmericanSingles decreased 41.1% to $3.3 million in the first quarter of 2005 compared to $5.5 million in the same period last year. The decrease in AmericanSingles marketing was due to a corporate initiative to reduce marketing spending related to the site. Direct marketing expenses for our Web sites in our Other Businesses segment increased 118.3% to $1.5 million in the first quarter of 2005 compared to $672,000 in the first quarter of 2004. The increase in spend related to our Web sites in our Other Businesses segment is attributed to additional advertising in order to generate traffic to our newer international Web sites which commenced operations early in 2004.

Operating Expenses

Operating expenses consist primarily of indirect marketing, customer service, technical operations, product development and general and administrative expenses. Operating expenses decreased 19.6% to $9.3 million in the first quarter of 2005 compared to $11.5 million in the same period in 2004. Stated as a percentage of net revenues, operating expenses decreased to 56.1% in the first quarter of 2005 compared to 76.6% in the same period last year. The decrease is due primarily to a decrease in share based compensation in the first quarter of 2005 which is further discussed below.

Indirect Marketing. Indirect marketing expenses consist primarily of salaries for our sales and marketing personnel and other associated costs such as public relations. Indirect marketing expenses decreased 49.9% to $265,000 in the first quarter of 2005 compared to $529,000 in the first quarter of 2004. Stated as a percentage of net revenues, indirect marketing expenses decreased to 1.6% in the first quarter of 2005 compared to 3.5% in the same period in 2004. The decrease is due to a decrease in headcount in our marketing department, and the termination of the Chief Marketing Officer in the fourth quarter of 2004 who has not been replaced.

Customer Service. Customer service expenses consist primarily of costs associated with our member services center. Customer services expenses decreased 40.8% to $577,000 in the first quarter of 2005 compared to $975,000 in the first quarter of 2004. Stated as a percentage of net revenues, customer service expenses decreased to 3.5% in the quarter ended March 31, 2005 compared to 6.5% in the same period in the prior year. The decrease is due to a decrease in headcount from 2004 to 2005. During the first quarter of 2004, we had higher staffing in our member services center in order to better serve our customers due to the launch of new Web sites and new platforms. During the remainder of 2004, we worked to increase our efficiency in handling our call volume, and therefore reduced our headcount accordingly by the first quarter of 2005.

Technical Operations. Technical operations expenses consist primarily of the people and systems necessary to support our network, Internet connectivity and other data and communication support. Technical operations expenses increased 4.3% to $1.4 million in the first quarter of 2005 compared to $1.3 million in 2004. The increase is due primarily to an increase in depreciation expense associated with the increase in hardware to support our network and an increase in capitalized software amortization associated with redesigning our operating platform. As a percentage of net revenues, technical operations decreased to 8.5% in the quarter ended March 31, 2005 compared to 8.9% in the same period last year.

Product Development. Product development expenses consist primarily of costs incurred in the development, creation and enhancement of our Web sites and services. Product development expenses increased 144.1% to $830,000 in the first quarter of 2005 compared to $340,000 in 2004. As a percentage of net revenues, product development expenses increased to 5.0% for the quarter ended March 31, 2005 compared to 2.3% in 2004. The increase is due primarily to an increase in headcount associated with development of new backend architecture for our websites.

General and Administrative. General and administrative expenses consist primarily of corporate personnel-related costs, professional fees, credit card processing fees, and occupancy and other overhead costs. General and administrative expenses decreased 6.1% to $6.0 million in the first quarter of 2005 compared to $6.4 million in the same period in 2004. The decrease in general and administrative expenses is due primarily to the $2.4 million severance charge recorded in the first quarter of 2004, offset by an increase in salaries and wages related to hiring additional legal and finance personnel and an increase in credit card processing fees related to higher revenues. Stated as a percentage of net revenues, general and administrative expenses decreased to 36.3% in the quarter ended March 31, 2005 compared to 42.4% for the same period in 2004.

Share-Based Compensation. Share-based compensation resulted from the issuance of warrants and options that were treated as variable under accounting principles which, on a quarterly basis, required us to recognize an increase or decrease in compensation expense based on the then fair-value of the subject securities. Share-based compensation decreased 94.9% to $87,000 in the first quarter of 2005 compared to $1.7 million in the first quarter of 2004. The difference in expense is due to the fact that the majority of options and warrants which were considered variable in 2004 were fully valued and accounted for in 2004 and as a result did not impact the results of the first quarter of 2005.

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 expense decreased 54.9% to $110,000 in the first quarter of 2005 compared to $244,000 in the first quarter of 2004. The decrease is due to intangibles related to older acquisitions being fully amortized in the first quarter of 2005.

Interest Income/Loss and Other Expenses, Net. Interest income/loss and other expenses consist primarily of interest income associated with temporary investments in interest bearing accounts and marketable securities and income on our investments in non-controlled affiliates. Net interest income increased to $24,000 for the quarter ended March 31, 2005 from net interest expense of $4,000 for the same period in 2004. The increase was due primarily to an increase in our investment returns on our marketable securities due to higher invested balances.

Liquidity and Capital Resources

As of March 31, 2005, we had cash, cash equivalents and marketable securities of $9.9 million. We have historically financed our operations with internally generated funds and offerings of equity securities. We have no revolving or term credit facilities.

Net cash provided by operations was $1.1 million for the three months ended March 31, 2005 compared to $1.4 million for the same period in 2004. The decrease is primarily due to a decrease in accounts payable and accrued liabilities associated with a decrease in our marketing spend during the quarter, offset by an increase in prepaid expenses and other assets associated with our S-1 Registration Statement.

Net cash used in investing activities was $766,000 for the first quarter of 2005 compared to $4.9 million for the same period in 2004. The decrease was due to the acquisition of Point Match Ltd. in the first quarter of 2004.

Net cash provided by financing activities was $2.2 million for the first quarter of 2005 compared to $5.8 million for the first quarter of 2004. In the first quarter of 2004, we completed a private placement of 600,000 ordinary shares which resulted in net proceeds to the Company of $3.7 million, as well as the exercise of stock options and warrants. Cash provided by financing activities in 2005 was due entirely to the exercise of options and warrants.

The effect of exchange rates on cash and cash equivalents during the quarter ended March 31, 2005, was due to a strengthening of the U.S. dollar against the Israeli shekel.

As discussed in our financial statements, the Company issued certain securities that may in the future be subject to a rescission offer commenced by the Company (See Note 6 – "Shareholder's Equity" of the Consolidated Financial Statements). We plan to fund any costs related to a rescission offer from the proceeds of our planned offering of securities pursuant to our S-1 registration statement. We do not believe such a rescission offer would affect our ability to obtain financing in the future, due to our belief that a rescission offer would not be accepted by our shareholders or option holders in an amount that would represent a material expenditure by us. This belief is based on the fact that a rescission offer, if made, would result in our offering to repurchase shares at a weighted average price of $2.09 and to repurchase options with a weighted average exercise price of $3.04, while our stock closed at $10.53 per share on March 31, 2005.

We believe that our current cash and cash equivalents, marketable securities and cash flow from operations will be sufficient to meet our anticipated cash needs for working capital, planned capital expenditures and contractual obligations for at least the next 12 months. We may be required or find it desirable prior to such time to raise additional funds through bank financing or through the issuance of debt or equity.

Off-Balance Sheet Arrangements

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

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relate primarily to our cash, cash equivalents and marketable securities. We have not used derivative financial instruments to mitigate such risk. We invest our excess cash in debt instruments of the U.S. Government and its agencies.

Investments in both fixed-rate and floating-rate interest-earning instruments carry a degree of interest rate risk. Fixed-rate securities may have their market values adversely impacted due to a rise in interest rates, while floating-rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates. Due to the short-term nature of our investment portfolio, and our ability to liquidate this portfolio in short order, we do not believe that a 10% increase in interest rates would have a material effect on the fair market value of our investment portfolio.

Foreign Currency Risk

Our exposure to foreign currency risk is due primarily to our international operations. Revenues and certain expenses related to our international websites are denominated in the functional currencies of the local countries they serve. Primary currencies include Israeli shekels, Canadian dollars, British pound sterling and Euros. Our foreign subsidiary in Israel conducts business in their local currency. We translate into U.S. dollars the assets and liabilities using period-end rates of exchange, and revenues and expenses using average rates of exchange for the year. Any weakening of the U.S. dollar against these foreign currencies will result in increased revenue, expenses and translation gains and losses in our consolidated financial statements. Similarly, any strengthening of the U.S. dollar against these currencies will result in decreased revenues, expenses and translation gains and losses. We do not believe that a hypothetical 10% increase in foreign currency exchange rates would have a material effect on our financial statements.

RISK FACTORS

You should carefully consider the risks described below together with all of the other information included in this quarterly 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 March 31, 2005, we had an accumulated deficit of approximately $41.6 million. We had net income of approximately $2.0 million for the fiscal quarter ended March 31, 2005 and a loss of approximately $11.6 million for the year ended December 31, 2004. We expect that our operating expenses will continue to increase during the next several years as a result of the promotion of our services, the hiring of additional key personnel, the expansion of our operations, including the launch of new Web sites, and entering into acquisitions, strategic alliances and joint ventures. If our revenues do not grow at a substantially faster rate than these expected increases in our expenses or if our operating expenses are higher than we anticipate, we may not be profitable and we may incur additional losses, which could be significant.

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

We derive nearly all of our net revenues from online subscription fees for our services, which is an early-stage business model for us that has undergone, and continues to experience, rapid and dramatic changes. As a result, we have very little operating history for you to evaluate in assessing our future prospects. You must consider our business and prospects in light of the risks and difficulties we will encounter as an early-stage company in a new and rapidly evolving market. Our 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 quarter ended March 31, 2005 and 2004, the monthly subscriber churn for (1) the JDate segment was 26.0% and 26.0%, respectively, (2) the AmericanSingles segment was 35.8% and 35.8%, respectively, and (3) the Web sites in our Other Businesses segment was 28.6% and 27.2%, 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.

SPARK NETWORKS, PLC

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PART I. FINANCIAL INFORMATION

SPARK NETWORKS PLC
(formerly known as MatchNet plc)

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	March 31, 2005 (unaudited)	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 6,786	$ 4,265
Marketable securities	3,128	3,158
Accounts receivable, net of allowance of $13 for March 31, 2005 and December 31, 2004	434	641
Advances to employees	229	223
Prepaid expenses and other	1,837	879
Restricted cash	1,281	1,330
Total current assets	13,695	10,496
Property and equipment, net	6,448	6,467
Goodwill, net	7,888	7,955
Intangible assets, net	957	1,069
Investment in noncontrolled affiliate	1,173	1,167
Deposits and other assets	404	408
Total assets	$ 30,565	$ 27,562
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 3,371	$ 3,014
Accrued liabilities	6,382	8,052
Deferred revenue	3,887	3,933
Notes payable – current portion	400	400
Current portion of obligations under capital leases	76	173
Total current liabilities	14,116	15,572
Other liabilities	175	--
Notes payable – long term	1,300	1,300
Total liabilities	15,591	16,872
Shares subject to rescission (Note 4)	3,819	3,819
Commitments and contingencies (Note 8)	--	--
Shareholders' equity:		
Authorized capital £800,000 divided into 80,000,000 ordinary shares of 1p each; issued and outstanding 25,540,982 shares as of March 31, 2005 and 24,587,351 shares as of December 31, 2004, at a stated value of:	418	401
Additional paid-in-capital	52,718	50,423
Deferred stock-based compensation	(218)	(305)
Accumulated other comprehensive (loss)	(115)	(13)
Accumulated deficit	(41,648)	(43,635)
Total shareholders' equity	11,155	6,871
Total liabilities and shareholders' equity	$ 30,565	$ 27,562

See accompanying notes.

SPARK NETWORKS PLC
(formerly known as MatchNet plc)

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

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net revenues	$ 16,526	$ 15,050
Direct marketing expenses	5,228	6,539
Contribution margin	11,298	8,511
Operating expenses:		
Indirect marketing	265	529
Customer service	577	975
Technical operations	1,402	1,344
Product development	830	340
General and administrative (excluding share-based compensation)	5,992	6,383
Share based compensation	87	1,712
Amortization of intangible assets other than goodwill	110	244
Total operating expenses	9,263	11,527
Operating income (loss)	2,035	(3,016)
Interest (income), loss and other expenses, net	(24)	4
Income (loss) before income taxes	2,059	(3,020)
Provision for income taxes	72	1
Net income (loss)	$ 1,987	$ (3,021)
Net income (loss) per share – basic	$ 0.08	$ (0.14)
Net income (loss) per share – diluted	$ 0.07	$ (0.14)
Weighted average shares outstanding – basic	25,117	21,286
Weighted average shares outstanding – diluted	29,236	21,286

See accompanying notes.

SPARK NETWORKS PLC
(formerly known as MatchNet plc)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited, in thousands)

	Ordinary Shares		Additional Paid-in Capital	Deferred Share Compensation	Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount					
BALANCE, December 31, 2004	24,587	$ 401	$ 50,423	$ (305)	$ (13)	$ (43,635)	$ 6,871
Issuance of ordinary shares upon exercise of share option and warrants	954	17	2,295	--	--	--	2,312
Unrealized loss on marketable securities	--	--	--	--	(30)	--	(30)
Foreign currency translation adjustment	--	--	--	--	(72)	--	(72)
Share based compensation	--	--	--	87	--	--	87
Net income	--	--	--	--	--	1,987	1,987
BALANCE, March 31, 2005	25,541	$ 418	$ 52,718	$ (218)	$ (115)	$ (41,648)	$ 11,155

See accompanying notes.

SPARK NETWORKS PLC
(formerly known as MatchNet plc)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Three Months Ended March 31, 2005	2004
Cash flows from operating activities:		
Net income (loss)	$ 1,987	$ (3,021)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Depreciation and amortization	958	713
Fair value of compensatory share options and warrants	87	1,713
Changes in operating assets and liabilities:		
Accounts receivable	207	(190)
Advances to employee and executives	(6)	260
Restricted cash	49	--
Prepaid expenses and other assets	(954)	381
Accounts payable and accrued liabilities	(1,313)	1,224
Other liabilities	175	--
Deferred revenue	(46)	358
Net cash provided by operating activities	1,144	1,438
Cash flows from investing activities:		
Sale of marketable securities	--	3,246
Purchases of marketable securities	--	(3,000)
Purchases of property and equipment	(831)	(937)
Purchases of businesses and intangible assets	65	(4,199)
Net cash used in investing activities	(766)	(4,890)
Cash flows from financing activities:		
Proceeds from issuance of ordinary shares	2,312	5,903
Principal payments of capital lease obligations	(97)	(75)
Net cash provided by financing activities	2,215	5,828
Effect of exchange rate on cash:	(72)	--
Net increase in cash	2,521	2,376
Cash and cash equivalents at beginning of year	4,265	2,035
Cash and cash equivalents at end of year	$ 6,786	$ 4,411
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 25	$ 15
Cash paid for income taxes	$ 11	$ 1

See accompanying notes.

SPARK NETWORKS PLC
(formerly known as MatchNet plc)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

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.

Principles of Consolidation

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

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

Interim Financial Information

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

These interim financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report for the year ended December 31, 2004.

Share 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) income and net income (loss) per share for the three months ended March 31, 2005 and 2004 would have been as follows (all amounts are in thousands, except per share data):

	Three Months Ended March 31,	
	2005	**2004**
Net income (loss), as reported	$ 1,987	$ (3,021)
Add-back: Total employee share compensation recorded in the accompanying consolidated statements of operations	219	169
Less: Total compensation as if the fair value method was used, net of tax effect	(1,864)	(1,003)
Pro forma net income (loss)	$ 342	$ (3,855)
Net income (loss) per share:		
As reported--basic	$ 0.08	$ (0.14)
As reported--diluted	0.07	(0.14)
Pro forma--basic	0.01	(0.18)
Pro forma--diluted	$ 0.01	$ (0.18)

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 used for grants:

	Three Months Ended March 31,	
	2005	**2004**
Expected life in years	4	4
Dividend per share	-	-
Volatility	75.5%	76.1%
Risk-free interest rate	3.5%	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 three months ended March 31, 2004 because it would have been anti-dilutive. Had the Company’s net income been positive for the three months ended March 31, 2004, the weighted average shares outstanding for the diluted earnings per share calculation would have been approximately 27.7 million.

Comprehensive Income (Loss)

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

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net income (loss)	$ 1,987	$ (3,021)
Changes in unrealized gains/losses in available for sale securities	(30)	(10)
Foreign currency translation adjustment	(72)	(209)
Total comprehensive income (loss)	$ 1,885	$ (3,240)

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. On April 14, 2005 the Securities and Exchange Commission issued press release 2005-57 which amends SFAS No. 123R by requiring that public companies adopt “123R at the beginning of their next fiscal year, instead of the next reporting period, that begins after June 15, 2005 or December 15, 2005.” The Company is currently evaluating whether we are eligible to postpone the implementation of SFAS 123R until January 1, 2006 instead of implementing for the quarter commencing on July 1, 2005 as previously disclosed. In implementing 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, 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. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing the net income for the period by the weighted average number of shares outstanding during the period. Diluted net income per share is computed by dividing the net income for the period by the weighted average number of shares and potentially dilutive shares outstanding during the period. Potentially dilutive shares, are composed of shares issuable upon the exercise of options and warrants and are computed using the treasury stock method. As seen in the chart below, diluted earnings per share is calculated only for those periods having income since diluting a loss would be anti-conservative. (in thousands except earnings per share)

	For the Three Months Ended March 31,	
	2005	**2004**
Income (loss) per common share – basic		
Net income (loss) appicable to common shares	$ 1,987	$ (3,021)
Weighted average shares outstanding-Basic	25,117	21,286
Basic earnings per share	**$ 0.08**	**$ (0.14)**
Income (loss) per common share – diluted		
Net income (loss) appicable to common shares	$ 1,987	$ (3,021)
Weighted average shares outstanding-Basic	25,117	NA
Dilutive Options using the Treasury Stock Method	3,762	NA
Dilutive Warrants using the Treasury Stock Method	357	NA
Weighted average shares outstanding - Diluted	29,236	NA
Diluted earning per share	**$ 0.07**	**NA**

3. Acquisitions of Businesses

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 March 31, 2005. This amount is considered Goodwill and is recorded on the balance sheet within the "investment in non-controlled affiliates" account. The Company has recorded earnings of $6,000 in the quarter ended March 3, 2005 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 to share in the operating costs incurred by Duplo AB. The agreement calls for quarterly payments of $120,000 in advance commencing on January 1, 2005 ($120,000 for the quarter ended March 31, 2005). 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.

In May 2005, the Company decided to exercise its call option to purchase the remaining 80% of Duplo. Please see Note 10 Subsequent Events for additional information.

4. 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 ($76,000 as of March 31, 2005).

The Company's total payments under capital lease agreements were approximately $97,000 and $75,000 in the first quarter of 2005 and 2004 respectively.

5. Notes Payable

In September 2004, the Company issued a promissory note in the amount of $1.7 million as a final settlement for a lawsuit. The note bears interest at the rate of 2.75% per year and is payable in installments on (i) September 15, 2005 in the amount of $400,000; (ii) September 15, 2006 in the amount of $400,000; and (iii) September 15, 2007 in the amount of $900,000.

6. Shareholders' Equity

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. In 2004 and prior years 767,000 warrants were exercised. In the first quarter of 2005 and prior to January 15, 2005, 8,000 warrants were exercised. The remaining 25,000 warrants expired on 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 2004 and 2003 of approximately $914,000 and $505,000, 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 using 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. In the first quarter of 2005, 220,000 warrants were exercised. As of March 31, 2005, 530,000 warrants, which expire in 2007 are vested and outstanding.

Employee Share Option Schemes

The Company has two share option schemes, the MatchNet plc 2000 Unapproved 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 under the Plans, 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 14,744,000 shares available for future grant as of March 31, 2005.

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, any expense or deferred compensation previously recognized in the amount of $378,000 was reversed. In 2004, the remaining 75,000 options were treated as fixed due to a change in employee status. In the first quarter of 2005, the Company realized that 37,500 options would not vest. Based on this, the Company recorded a credit of $132,000 related to these options reducing the deferred compensation balance to $75,000.

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 the first quarter of 2005 and 2004, the Company recorded expenses of approximately $219,000 and $169,000, respectively, resulting from these transactions. These transactions also resulted in a deferred share compensation balance of approximately $143,000 and $488,000 at March 31, 2005 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 (in thousands)	**Weighted Average Price Per Share**
Outstanding at December 31, 2004	8,997	$ 3.81
Granted	784	9.19
Exercised	(784)	2.92
Cancelled	(187)	8.68
Outstanding at March 31, 2005	8,810	$ 4.06

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

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, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity”, and its related interpretations. Under the SEC’s interpretation of generally accepted accounting principles, reporting such claims outside of 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 March 31, 2005 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 January, 2006 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 in 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.

7. Segment Information

The Company operates several online personals 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 consists 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 websites into the Other Businesses segment. As a result of this change occurring in the fourth quarter of 2004, we have presented resegmented information for the quarter ended March 31, 2004. Information for our segments is as follows (in thousands):

	Net Revenues	Direct Marketing Expenses	Contribution	Unallocated Operating Expenses	Operating Income (loss)
Year Ending March 31, 2005					
JDate	$ 6,468	$ 503	$ 5,965	$ -	$ -
AmericanSingles	8,097	3,258	4,839	-	-
Other	1,961	1,467	494	-	-
Corporate	-	-	-	9,263	
Total	$ 16,526	$ 5,228	$ 11,298	$ 9,263	$ 2,035
Year Ending March 31, 2004					
JDate	$ 5,867	$ 335	$ 5,532	$ -	$ -
AmericanSingles	8,520	5,532	2,988	-	-
Other	663	672	(9)		
Corporate	-	-	-	11,527	-
Total	$ 15,050	$ 6,539	$ 8,511	$ 11,527	$ (3,016)

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 included in total operating expenses in the individual line items to which the assets provide service.

8. Commitments and Contingencies

Litigation

Three separate yet similar class action complaints have been filed 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. On September 12, 2002, Lili Grossman filed a New York class action complaint against our Company 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 our Company in the Los Angeles County Superior Court based on an alleged violation of California Civil Code section 1694 et seq., which regulates businesses that provide dating services. In each of these cases, the complaint included allegations that alleged that our Company was a dating service as defined by the applicable statutes 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. On July 15, the parties will submit to the court in *Adelman* proposed stipulated facts, opening briefs, and related trial exhibits. On August 15, a status conference will be held in *Adelman* for the purpose of scheduling a hearing to determine whether, as a 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.

On March 25, 2005, the court in *Fertelmeyster* entered its Memorandum Opinion and Order ("Memorandum Opinion") granting summary judgment in favor of our Company on the grounds that Fertelmeyster lacks standing to seek injunctive relief or restitutionary relief under the Illinois Dating Services Act, Fertelmeyster did not suffer any actual damages, and our Company was not unjustly enriched as a result of its contract with Fertelmeyster. The Memorandum Opinion "disposes of all matters in controversy" in the litigation and also provides that our Company is subject to the Illinois Dating Services Act and as such, our subscription agreements violate the act and are void and unenforceable. Fertelmeyster has filed a Motion for Reconsideration of the Memorandum Opinion which is scheduled for hearing on June 21, 2005.

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

We believe 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 our favor.

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 resolutions 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.

9. Related Party Transactions

In 2004, the Company entered into an agreement with Efficient Frontier, a provider of online marketing optimization services to procure and manage a portion of 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 $111,000 to Efficient Frontier in the first quarter of 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 equity financing, if such equity financing is completed within certain timeframes. The Chief Technology Officer, Phil Nelson, is the Chairman of Yobon.

Elraz Sela, the nephew of Alon Carmel is employed by the Company in an executive position for which he is compensated $120,000 per year. In addition, several other 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 for which they are compensated less than $60,000.

10. Subsequent Event

On April 20, 2005, 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.

On May 19, 2005 the Company completed the purchase of MingleMatch Inc., a company that operates religious, ethnic, special interest and geographically targeted online singles communities. The acquisition of MingleMatch fits with the Company's strategy of creating affinity-focused online personals that provide the highest quality experience for our members. In addition to increasing our member and subscriber bases, the Company expects the purchase of MingleMatch will allow for numerous cost and revenue synergies. The purchase price for the acquisition was $12 million in cash, which will be paid over 12 months, with $3 million to be paid in 2005 and $9 million to be paid in 2006, as well as 150,000 shares of the Company's ordinary shares which, on the date of the acquisition carried a value of approximately $1.1 million. The Company is currently in the process of performing its purchase price allocation and expects goodwill to increase significantly as a result of the transaction. For the fiscal year ended December 31, 2004, MingleMatch reported net revenues of approximately $2.5 million and a loss of $443,000.