

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

**FORM 10-Q**

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

For the Quarterly Period Ended **September 30, 2022**

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number **001-38252**

**Spark Networks SE**

(Exact name of Registrant as specified in its Charter)

**Germany**

(State or other jurisdiction of  
incorporation or organization)

N/A

(I.R.S. Employer  
Identification No.)

**Kohlfurter Straße 41/43  
Berlin**

**Germany**

(Address of principal executive offices)

**10999**

(Zip Code)

Registrant's telephone number, including area code: **(+49) 30 868000**

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class  | Trading<br>Symbol(s) | Name of each exchange on which registered |
|--|----------------------|---|
| American Depositary Shares each representing one-tenth of an ordinary share<br><br>Ordinary shares, €1.00 nominal value per share* | LOV                  | The Nasdaq Stock Market, LLC              |

\* Not for trading purposes, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission.

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  
Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

|                         |                                     |                           |                                     |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/>            | Accelerated filer         | <input checked="" type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>            | Smaller reporting company | <input checked="" type="checkbox"/> |
| Emerging growth company | <input checked="" type="checkbox"/> |                           |                                     |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of ordinary shares outstanding as of November 2, 2022 was 2,617,397.

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**PART I**  
**Financial Information**

**Item 1. Financial Statements**

**Spark Networks SE**  
**Condensed Consolidated Balance Sheets (Unaudited)**  
**(in thousands, except share data)**

|   | <b>September 30, 2022</b> | <b>December 31, 2021</b> |
|---|---------------------------|--------------------------|
| <b>Assets</b>   |                           |                          |
| Current assets:   |                           |                          |
| Cash and cash equivalents   | \$ 12,728                 | \$ 16,141                |
| Accounts receivable, net of allowance of \$272 and \$368, respectively  | 4,792                     | 6,261                    |
| Prepaid expenses  | 3,337                     | 3,201                    |
| Other current assets  | 381                       | 1,085                    |
| Total current assets  | 21,238                    | 26,688                   |
| Property and equipment, net of accumulated depreciation of \$4,139 and \$3,998, respectively  | 4,329                     | 3,613                    |
| Goodwill  | 134,660                   | 134,744                  |
| Intangible assets, net of accumulated amortization of \$16,480 and \$15,522, respectively   | 16,615                    | 29,369                   |
| Deferred tax assets   | 6,560                     | 7,623                    |
| Other assets  | 5,615                     | 7,764                    |
| Total assets  | \$ 189,017                | \$ 209,801               |
| <b>Liabilities and Shareholders' Equity</b>   |                           |                          |
| Current liabilities:  |                           |                          |
| Current portion of long-term debt   | \$ 2,364                  | \$ 17,593                |
| Accounts payable  | 10,778                    | 11,474                   |
| Deferred revenue  | 30,078                    | 36,973                   |
| Accrued expenses and other current liabilities  | 19,293                    | 27,042                   |
| Total current liabilities   | 62,513                    | 93,082                   |
| Long-term debt, net of current portion  | 92,181                    | 64,531                   |
| Deferred tax liabilities  | 670                       | 1,077                    |
| Other liabilities   | 17,830                    | 18,418                   |
| Total liabilities   | 173,194                   | 177,108                  |
| Contingencies (Note 7)  |                           |                          |
| Shareholders' Equity:   |                           |                          |
| Common stock, €1.00 nominal value; 3,992,078 and 3,521,005 shares authorized as of September 30, 2022 and December 31, 2021, respectively; 2,661,386 shares issued; 2,617,397 shares outstanding as of September 30, 2022 and December 31, 2021 | 3,064                     | 3,064                    |
| Treasury stock, at €1.00 nominal value; 43,989 shares as of September 30, 2022 and December 31, 2021  | (48)                      | (48)                     |
| Additional paid-in capital  | 224,613                   | 223,103                  |
| Accumulated deficit   | (227,347)                 | (200,403)                |
| Accumulated other comprehensive income  | 15,541                    | 6,977                    |
| Total shareholders' equity  | 15,823                    | 32,693                   |
| Total liabilities and shareholders' equity  | \$ 189,017                | \$ 209,801               |

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

**Spark Networks SE**  
**Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)**  
(in thousands, except share and per share data)

|   | Three Months Ended September 30, |                   | Nine Months Ended September 30, |                    |
|---|----------------------------------|-------------------|---------------------------------|--------------------|
|   | 2022                             | 2021              | 2022                            | 2021               |
| Revenue   | \$ 48,180                        | \$ 53,297         | \$ 146,122                      | \$ 164,929         |
| Operating costs and expenses:                               |                                  |                   |                                 |                    |
| Cost of revenue, exclusive of depreciation and amortization | 27,231                           | 34,804            | 97,833                          | 104,603            |
| Other operating expenses                                    | 13,778                           | 14,441            | 43,733                          | 45,516             |
| Depreciation and amortization                               | 576                              | 1,060             | 1,756                           | 5,648              |
| Impairment of goodwill and intangible assets                | 11,790                           | —                 | 11,790                          | 32,086             |
| Total operating costs and expenses                          | <u>53,375</u>                    | <u>50,305</u>     | <u>155,112</u>                  | <u>187,853</u>     |
| Operating (loss) income                                     | (5,195)                          | 2,992             | (8,990)                         | (22,924)           |
| Other income (expense):                                     |                                  |                   |                                 |                    |
| Interest expense  | (3,209)                          | (3,110)           | (12,797)                        | (10,352)           |
| Loss on foreign currency transactions                       | (2,799)                          | (978)             | (6,007)                         | (2,122)            |
| Other income (expense)                                      | 38                               | 7                 | 298                             | (11)               |
| Total other expense, net                                    | <u>(5,970)</u>                   | <u>(4,081)</u>    | <u>(18,506)</u>                 | <u>(12,485)</u>    |
| Loss before income taxes                                    | (11,165)                         | (1,089)           | (27,496)                        | (35,409)           |
| Income tax benefit (expense)                                | 453                              | (1,601)           | 552                             | (22,812)           |
| Net loss  | <u>(10,712)</u>                  | <u>(2,690)</u>    | <u>(26,944)</u>                 | <u>(58,221)</u>    |
| Other comprehensive income:                                 |                                  |                   |                                 |                    |
| Foreign currency translation adjustment                     | 3,591                            | 1,232             | 8,564                           | 2,786              |
| Comprehensive loss  | <u>\$ (7,121)</u>                | <u>\$ (1,458)</u> | <u>\$ (18,380)</u>              | <u>\$ (55,435)</u> |
| Loss per share:   |                                  |                   |                                 |                    |
| Basic loss per share  | \$ (4.09)                        | \$ (1.03)         | \$ (10.29)                      | \$ (22.31)         |
| Diluted loss per share                                      | \$ (4.09)                        | \$ (1.03)         | \$ (10.29)                      | \$ (22.31)         |
| Weighted average shares outstanding:                        |                                  |                   |                                 |                    |
| Basic   | 2,617,397                        | 2,613,708         | 2,617,397                       | 2,609,285          |
| Diluted   | 2,617,397                        | 2,613,708         | 2,617,397                       | 2,609,285          |

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

**Spark Networks SE**  
**Condensed Consolidated Statements of Shareholders' Equity (Unaudited)**  
(in thousands, except share data)

| Three Months Ended September 30, 2022    |              |          |                |         |                               |                        |  |                                  |  |
|--|--------------|----------|----------------|---------|-------------------------------|------------------------|--|----------------------------------|--|
|  | Common Stock |          | Treasury Stock |         | Additional<br>Paid-in Capital | Accumulated<br>Deficit | Accumulated Other<br>Comprehensive<br>Income | Total<br>shareholders'<br>equity |  |
|  | Shares       | Amount   | Shares         | Amount  |                               |                        |  |                                  |  |
| <b>Balance at July 1, 2022</b>           | 2,661,386    | \$ 3,064 | (43,989)       | \$ (48) | \$ 224,095                    | \$ (216,635)           | \$ 11,950                                    | \$ 22,426                        |  |
| Stock-based compensation                 | —            | —        | —              | —       | 518                           | —                      | —  | 518                              |  |
| Net loss                                 | —            | —        | —              | —       | —                             | (10,712)               | —  | (10,712)                         |  |
| Foreign currency translation adjustments | —            | —        | —              | —       | —                             | —                      | 3,591  | 3,591                            |  |
| <b>Balance at September 30, 2022</b>     | 2,661,386    | \$ 3,064 | (43,989)       | \$ (48) | \$ 224,613                    | \$ (227,347)           | \$ 15,541                                    | \$ 15,823                        |  |

| Three Months Ended September 30, 2021                |              |          |                |         |                               |                        |  |                                  |  |
|--|--------------|----------|----------------|---------|-------------------------------|------------------------|--|----------------------------------|--|
|  | Common Stock |          | Treasury Stock |         | Additional<br>Paid-in Capital | Accumulated<br>Deficit | Accumulated Other<br>Comprehensive<br>Income | Total<br>shareholders'<br>equity |  |
|  | Shares       | Amount   | Shares         | Amount  |                               |                        |  |                                  |  |
| <b>Balance at July 1, 2021</b>                       | 2,661,386    | \$ 3,064 | (48,128)       | \$ (53) | \$ 222,082                    | \$ (187,779)           | \$ 4,850                                     | \$ 42,164                        |  |
| Stock-based compensation                             | —            | —        | —              | —       | 482                           | —                      | —  | 482                              |  |
| Treasury stock issued pursuant to equity-based plans | —            | —        | 1,656          | 2       | (41)                          | —                      | —  | (39)                             |  |
| Net loss   | —            | —        | —              | —       | —                             | (2,690)                | —  | (2,690)                          |  |
| Foreign currency translation adjustments             | —            | —        | —              | —       | —                             | —                      | 1,232  | 1,232                            |  |
| <b>Balance at September 30, 2021</b>                 | 2,661,386    | \$ 3,064 | (46,472)       | \$ (51) | \$ 222,523                    | \$ (190,469)           | \$ 6,082                                     | \$ 41,149                        |  |

| Nine Months Ended September 30, 2022     |              |          |                |         |                               |                        |  |                                  |  |
|--|--------------|----------|----------------|---------|-------------------------------|------------------------|--|----------------------------------|--|
|  | Common Stock |          | Treasury Stock |         | Additional<br>Paid-in Capital | Accumulated<br>Deficit | Accumulated Other<br>Comprehensive<br>Income | Total<br>shareholders'<br>equity |  |
|  | Shares       | Amount   | Shares         | Amount  |                               |                        |  |                                  |  |
| <b>Balance at January 1, 2022</b>        | 2,661,386    | \$ 3,064 | (43,989)       | \$ (48) | \$ 223,103                    | \$ (200,403)           | \$ 6,977                                     | \$ 32,693                        |  |
| Stock-based compensation                 | —            | —        | —              | —       | 1,510                         | —                      | —  | 1,510                            |  |
| Net loss                                 | —            | —        | —              | —       | —                             | (26,944)               | —  | (26,944)                         |  |
| Foreign currency translation adjustments | —            | —        | —              | —       | —                             | —                      | 8,564  | 8,564                            |  |
| <b>Balance at September 30, 2022</b>     | 2,661,386    | \$ 3,064 | (43,989)       | \$ (48) | \$ 224,613                    | \$ (227,347)           | \$ 15,541                                    | \$ 15,823                        |  |

| Nine Months Ended September 30, 2021                 |              |          |                |         |                               |                        |  |                                  |  |
|--|--------------|----------|----------------|---------|-------------------------------|------------------------|--|----------------------------------|--|
|  | Common Stock |          | Treasury Stock |         | Additional<br>Paid-in Capital | Accumulated<br>Deficit | Accumulated Other<br>Comprehensive<br>Income | Total<br>shareholders'<br>equity |  |
|  | Shares       | Amount   | Shares         | Amount  |                               |                        |  |                                  |  |
| <b>Balance at January 1, 2021</b>                    | 2,661,386    | \$ 3,064 | (55,697)       | \$ (61) | \$ 220,852                    | \$ (132,248)           | \$ 3,296                                     | \$ 94,903                        |  |
| Stock-based compensation                             | —            | —        | —              | —       | 2,098                         | —                      | —  | 2,098                            |  |
| Treasury stock issued pursuant to equity-based plans | —            | —        | 9,225          | 10      | (427)                         | —                      | —  | (417)                            |  |
| Net loss   | —            | —        | —              | —       | —                             | (58,221)               | —  | (58,221)                         |  |
| Foreign currency translation adjustments             | —            | —        | —              | —       | —                             | —                      | 2,786  | 2,786                            |  |
| <b>Balance at September 30, 2021</b>                 | 2,661,386    | \$ 3,064 | (46,472)       | \$ (51) | \$ 222,523                    | \$ (190,469)           | \$ 6,082                                     | \$ 41,149                        |  |

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

**Spark Networks SE**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**  
(in thousands)

|   | <b>Nine Months Ended September 30,</b> |                    |
|---|--|--------------------|
|   | <b>2022</b>                            | <b>2021</b>        |
| Net loss  | \$ (26,944)                            | \$ (58,221)        |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities:                           |  |                    |
| Depreciation and amortization   | 1,756                                  | 5,648              |
| Impairment of goodwill and intangible assets  | 11,790                                 | 32,086             |
| Loss on tangible and intangible assets  | 30                                     | —                  |
| Unrealized loss on foreign currency transactions  | 6,105                                  | 2,218              |
| Stock-based compensation expense  | 1,510                                  | 2,098              |
| Amortization of debt issuance costs and accretion of debt discounts   | 1,911                                  | 3,204              |
| Loss on extinguishment of debt  | 3,964                                  | —                  |
| Deferred tax expense  | —                                      | 22,812             |
| Provision for credit losses   | 390                                    | 331                |
| Non-cash lease expense  | 1,634                                  | 1,421              |
| Change in operating assets and liabilities:   |  |                    |
| Accounts receivable   | 849                                    | (2,103)            |
| Prepaid expenses and other current assets   | 226                                    | (116)              |
| Other assets  | 276                                    | 188                |
| Accounts payable, accrued expenses, and other current liabilities   | (5,530)                                | (1,416)            |
| Other liabilities   | (1,793)                                | (1,902)            |
| Deferred revenue  | (4,451)                                | 3,341              |
| <b>Net cash (used in) provided by operating activities</b>  | <b>\$ (8,277)</b>                      | <b>\$ 9,589</b>    |
| Capital expenditures  | (1,982)                                | (905)              |
| <b>Net cash used in investing activities</b>  | <b>\$ (1,982)</b>                      | <b>\$ (905)</b>    |
| Proceeds from debt, net of discount and issuance costs  | \$ 97,750                              | \$ —               |
| Repayment of debt   | (85,552)                               | (16,243)           |
| Debt issuance costs paid to third parties   | (3,719)                                | —                  |
| Payment of early extinguishment of debt charge  | (893)                                  | —                  |
| Payments directly related to debt   | (250)                                  | (523)              |
| <b>Net cash provided by (used in) financing activities</b>  | <b>\$ 7,336</b>                        | <b>\$ (16,766)</b> |
| Net change in cash and cash equivalents and restricted cash   | (2,923)                                | (8,082)            |
| Effects of exchange rate fluctuations on cash and cash equivalents and restricted cash                              | (509)                                  | (453)              |
| Net decrease in cash and cash equivalents and restricted cash   | <b>\$ (3,432)</b>                      | <b>\$ (8,535)</b>  |
| Cash and cash equivalents and restricted cash at beginning of period  | 16,279                                 | 21,117             |
| Cash and cash equivalents and restricted cash at end of period  | <b>\$ 12,847</b>                       | <b>\$ 12,582</b>   |
| <b>Supplemental disclosure of cash flow information:</b>  |  |                    |
| Cash paid for interest including payment of early extinguishment of debt charges of \$893 and \$0, respectively     | \$ 7,743                               | \$ 7,089           |
| Cash paid for income taxes  | \$ 2,636                               | \$ 114             |
| <b>Reconciliation of cash, cash equivalents, and restricted cash to the condensed consolidated balance sheets</b>   | <b>Sep-22</b>                          | <b>Dec-21</b>      |
| Cash and cash equivalents   | \$ 12,728                              | \$ 16,141          |
| Restricted cash included in other current assets  | 119                                    | 138                |
| Total cash and cash equivalents and restricted cash as shown on the condensed consolidated statements of cash flows | <b>\$ 12,847</b>                       | <b>\$ 16,279</b>   |

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

**Spark Networks SE**  
**Notes to Condensed Consolidated Financial Statements (unaudited)**

**Note 1. Basis of Presentation and Summary of Significant Accounting Policies**

**Description of Business**

Spark Networks SE (the "Company") is a leader in social dating platforms for meaningful relationships focusing on the 40+ age demographic and faith-based affiliations, including Zoosk, EliteSingles, SilverSingles, Christian Mingle, Jdate, and JSwipe, among others. The Company's brands are tailored to quality dating with real users looking for love and companionship in a safe and comfortable environment. The Company is domiciled in Germany with significant corporate operations, including executive leadership, accounting and finance, located in the United States. Except where the context clearly indicates otherwise, the terms the "Company," "Spark Networks," "we," "us" or "our" refer to Spark Networks SE and its consolidated subsidiaries.

**Basis of Presentation and Consolidation**

The Company prepares its consolidated financial statements in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") and applicable rules and regulations of the U.S. Securities and Exchange Commission ("SEC"), regarding interim financial reporting. The condensed consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

In management's opinion, the unaudited condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and reflect, in management's opinion, all adjustments, consisting of normal and recurring adjustments, necessary for the fair presentation of the Company's balance sheets, statement of operations and comprehensive loss, statement of shareholders' equity and statement of cash flows for the periods presented. Interim results are not necessarily indicative of the results that may be expected for the Company's entire fiscal year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2021 ("2021 Form 10-K"). The balance sheet as of December 30, 2021 included herein was derived from the audited financial statements as of that date, but does not include all disclosures, including certain notes required by U.S. GAAP on an annual reporting basis. We have condensed or omitted certain information and notes normally included in complete financial statements prepared in accordance with U.S. GAAP. As such, these unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2021, which are included in our 2021 Form 10-K.

**Use of Estimates**

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Significant estimates and assumptions are required in the determination of: revenue reserves, deferred tax asset valuation allowances, unrecognized tax benefits, classification and measurement of virtual stock option plans, and annual impairment testing of goodwill and indefinite-lived intangible assets. The Company evaluates its estimates and judgements on an ongoing basis based on historical experience, expectations of future events and various other factors that it believes to be reasonable under the circumstances and revises them when necessary. Actual results may differ from the original or revised estimates.

### **Change in Accounting Estimate**

During the quarter ended September 30, 2022, the Company analyzed its virtual currency deferred revenue balance to determine the likelihood of redemption based on the actual redemption rate. Virtual currency is paid for upfront and is recorded as deferred revenue until the currency is redeemed, at which point the Company recognizes the revenue. The Company's analysis showed a likelihood of redemption of its virtual currency after 12 months of purchase is remote. Based on this analysis, during the three months ended September 30, 2022, the Company recognized \$2.2 million of revenue that had been included in the Company's deferred revenue balance related to the virtual currency purchased 12 months prior to September 30, 2022. Going forward the Company will continue to analyze its virtual currency deferred revenue balance and will recognize revenue on a quarterly basis for all virtual currency that is held for longer than 12 months. This change is considered a change in accounting estimate in accordance with ASC 250 "Accounting Changes and Error Corrections". The effect of the change in estimate decreased the Company's net loss by \$2.0 million, and decreased both the basic and diluted loss per share by \$0.77 for the three months ended September 30, 2022, and decreased the Company's net loss by \$2.0 million and both the basic and diluted loss per share by \$0.77 for the nine months ended September 30, 2022.

### **Liquidity and Capital Resources**

The Company's financial statements are prepared in accordance with U.S. GAAP, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. As of the date of the financial statements, the Company has generated losses and negative cash flows from operations, incurred historical impairment charges to its Zoosk goodwill and intangible assets and has a working capital deficiency. These factors are potential indications of the Company's inability to continue as a going concern. In accordance with Accounting Standards Codification ("ASC") 205-40, Going Concern, the Company evaluated whether there are conditions and events, considered in the aggregate, that raise substantial doubt about its ability to continue as a going concern within one year after the date that these consolidated financial statements are issued.

The Company's plans to alleviate these indicators include growing its subscriber base by improving its marketing techniques and implementing new features to increase customer engagement on its various platforms. Further, on March 11, 2022, the Company completed the successful refinancing of its existing term and revolving facility with borrowings under a new term loan facility with MGG Investment Group LP (the "Term Loan"), which provides more covenant flexibility and allows more resources to be invested into the business to drive growth. The Term Loan was amended on August 5, 2022 and the amendment was further amended and restated on August 19, 2022 to, among other matters, revise certain financial covenants related to quarterly testing of the Company's leverage ratio. Refer to Note 6. *Long-term Debt* for additional information. The Company's plans, along with its current cash and cash equivalents, are expected to be sufficient to meet its anticipated cash requirements for financial liabilities, capital expenditures and contractual obligations, for at least the next 12 months from the issuance of these financial statements.

### **COVID-19 Update**

During 2020, the novel coronavirus ("COVID-19") outbreak spread worldwide and was declared a global pandemic in March 2020. Despite challenging economic conditions on consumers, we have maintained stable churn levels and experienced positive user engagement during the COVID-19 pandemic to date. The global outbreak of COVID-19 continues to evolve. Management is actively monitoring the global situation and evaluating the potential impact on the Company's business. The effects of COVID-19 did not have a material impact on the Company's result of operations or financial condition for the period ended September 30, 2022. However, given the evolution of the COVID-19 situation, and the global responses to curb its spread, the Company is not able to estimate the effects COVID-19 may have on its future results of operations or financial condition.

### **Recently Adopted Accounting Pronouncements**

There were no new accounting pronouncements issued by the Financial Accounting Standards Board during the three and nine months ended September 30, 2022 and through the date of filing of this report that had or are expected to have a material impact on the Company's financial position, results of operations or cash flows.



## Note 2. Revenue

For the three and nine months ended September 30, 2022 and 2021, revenue was as follows:

| (in thousands)           | Three Months Ended September 30, |                  | Nine Months Ended September 30, |                   |
|--------------------------|----------------------------------|------------------|---------------------------------|-------------------|
|                          | 2022                             | 2021             | 2022                            | 2021              |
| Subscription revenue     | \$ 44,377                        | \$ 51,503        | \$ 137,894                      | \$ 159,746        |
| Virtual currency revenue | 3,204                            | 970              | 6,169                           | 2,877             |
| Advertising revenue      | 599                              | 824              | 2,059                           | 2,306             |
| <b>Total Revenue</b>     | <b>\$ 48,180</b>                 | <b>\$ 53,297</b> | <b>\$ 146,122</b>               | <b>\$ 164,929</b> |

Revenue disaggregated by geography, based on where the revenue is generated, consists of the following:

| (in thousands)       | Three Months Ended September 30, |                  | Nine Months Ended September 30, |                   |
|----------------------|----------------------------------|------------------|---------------------------------|-------------------|
|                      | 2022                             | 2021             | 2022                            | 2021              |
| United States        | \$ 33,509                        | \$ 35,063        | \$ 99,556                       | \$ 107,653        |
| Germany              | 274                              | 266              | 836                             | 904               |
| Rest of world        | 14,397                           | 17,968           | 45,730                          | 56,372            |
| <b>Total Revenue</b> | <b>\$ 48,180</b>                 | <b>\$ 53,297</b> | <b>\$ 146,122</b>               | <b>\$ 164,929</b> |

During the nine months ended September 30, 2022 and 2021, the Company recognized \$36.5 million and \$35.9 million of revenue, respectively, that was included in the deferred revenue balances as of December 31, 2021 and 2020, respectively.

## Note 3. Income Taxes

For the three months ended September 30, 2022 and 2021, the Company recorded income tax benefit of \$0.5 million and income tax expense of \$1.6 million, respectively, which reflects an effective tax rate of 4.1% and (146.0)%, respectively. For the nine months ended September 30, 2022 and 2021, the Company recorded income tax benefit of \$0.6 million and income tax expense of \$22.8 million, respectively, which reflects an effective rate of 2.0% and (64.5)%, respectively. The change in the provision for the three and nine months ended September 30, 2022 was primarily driven by the Company benefiting from year to date losses in the U.S. jurisdiction and the June 2021 establishment of a valuation allowance against US deferred tax assets.

The Company had a valuation allowance against certain U.S., Israel, and German deferred tax assets as of both September 30, 2022 and December 31, 2021. The Company evaluates on a quarterly basis whether the deferred tax assets are realizable which requires significant judgement. The Company considers all available positive and negative evidence, including historical operating performance and expectations of future operating performance.

As of September 30, 2022 and December 31, 2021, the Company has \$4.9 million and \$4.7 million of unrecognized tax benefits, respectively. Of the \$4.9 million of unrecognized tax benefits as of September 30, 2022, \$1.9 million would impact the effective tax rate if recognized, and \$3.0 million would result in an increase in the valuation allowance. As of September 30, 2022 and December 31, 2021, the Company has recorded \$0.9 million and \$0.7 million of interest and penalties, respectively, related to unrecognized tax benefits. The Company's policy is to classify interest and penalties as a component of income tax expense.

On August 16, 2022, the Inflation Reduction Act of 2022 (the "IRA") was signed into law. This legislation includes significant changes relating to tax, climate change, energy and health care. Among other provisions, the IRA introduces a book minimum tax assessed on financial statement income of certain large corporations and an excise tax on share repurchases. The Company does not anticipate that these tax provisions will have a material impact on our results of operations or financial condition, when such provisions become effective.

As a matter of course, the Company may be audited by Germany, U.S. Federal, state and local, Israel, France, the U.K. and other foreign tax authorities within which it operates. From time to time, these audits result in proposed assessments. The Israeli tax authorities are auditing Spark Networks Ltd. for the tax years 2017-2019. There is minimal activity in the entity and, while we do not expect adverse findings, any potential findings would result in a reduction of the net operating loss carryforward which has a full valuation allowance against it. The Company received correspondence from the German tax authorities auditing Spark SE for the tax years 2017-2018, as well as Spark GmbH for the tax years 2016-2018 during the quarter ending June 30, 2022. While the Company is in the process of assessing and responding to the correspondence, there does not appear to be any material changes or adjustments.

Based on the current status of Germany, U.S. Federal, state and local and other foreign audits, the Company does not expect the amount of unrecognized tax benefits to significantly decrease in the next 12 months as a result of settlements of tax audits and/or the expiration of statutes of limitations.

#### Note 4. Goodwill and Intangible Assets

##### Goodwill

The Company performs its annual goodwill impairment test during the fourth quarter of each year, or more frequently if triggering events indicate a possible impairment in one or more of its reporting units. During the third quarter of 2022, the Company lowered its financial expectations for the remainder of 2022 due to continued appreciation of the U.S. Dollar and a tougher economic environment causing a temporary slowdown in demand for our products. The slower increase in projected revenue, as well as the rising interest rate and the cost of capital constituted an interim triggering event at the end of the third quarter of 2022. As a result, the Company performed an impairment analysis with regard to its indefinite-lived intangible assets and goodwill. The goodwill impairment test concluded that the fair value of its reporting units exceeded their carrying amounts, and no goodwill impairment was recognized during the three and nine months ended September 30, 2022.

During the second quarter of 2021, the Company lowered its financial expectations for the remainder of 2021 due to increased cyberattacks, delays in product initiatives and a more uncertain COVID-19 outlook. These factors constituted an interim triggering event as of the end of the Company's second quarter of 2021. The Company performed an impairment analysis with regard to its indefinite-lived intangible assets and goodwill, and recognized \$21.8 million goodwill impairment charges for its Zoosk reporting unit.

The following table summarizes the changes in the carrying amount of goodwill for the nine months ended September 30, 2022 and September 30, 2021:

##### (in thousands)

|                                  |    |          |
|----------------------------------|----|----------|
| Balance as of January 1, 2022    | \$ | 134,744  |
| Impairment charges               |    | —        |
| Impact of currency translation   |    | (84)     |
| Balance as of September 30, 2022 | \$ | 134,660  |
| Balance as of January 1, 2021    | \$ | 156,582  |
| Impairment charges               |    | (21,786) |
| Impact of currency translation   |    | (37)     |
| Balance as of September 30, 2021 | \$ | 134,759  |

The total accumulated impairment loss of the Company's goodwill was \$84.5 million as of September 30, 2022 and December 31, 2021.

## Intangible Assets

Intangible assets consists of the following as of September 30, 2022 and December 31, 2021:

| September 30, 2022                         |                       |                                   |                             |  |                     |
|--|-----------------------|-----------------------------------|-----------------------------|--|---------------------|
| (in thousands)                             | Gross Carrying Amount | Accumulated<br>Impairment Charges | Accumulated<br>Amortization | Currency Translation<br>Impact on Carrying<br>Amount | Net Carrying Amount |
| <b>Indefinite-lived intangible assets:</b> |                       |                                   |                             |  |                     |
| Brands and trademarks                      | \$ 63,800             | \$ (48,150)                       | \$ —                        | \$ —   | \$ 15,650           |
| <b>Long-lived intangible assets:</b>       |                       |                                   |                             |  |                     |
| Brands and trademarks                      | 86                    | —                                 | (56)                        | (5)  | 25                  |
| Acquired technology                        | 5,910                 | —                                 | (4,974)                     | —  | 936                 |
| Customer relationships                     | 10,780                | —                                 | (10,780)                    | —  | —                   |
| Licenses and domains                       | 205                   | —                                 | (200)                       | (1)  | 4                   |
| Other                                      | 470                   | —                                 | (470)                       | —  | —                   |
| <b>Total intangible assets</b>             | <b>\$ 81,251</b>      | <b>\$ (48,150)</b>                | <b>\$ (16,480)</b>          | <b>\$ (6)</b>  | <b>\$ 16,615</b>    |

| December 31, 2021                          |                       |                                   |                             |  |                     |
|--|-----------------------|-----------------------------------|-----------------------------|--|---------------------|
| (in thousands)                             | Gross Carrying Amount | Accumulated<br>Impairment Charges | Accumulated<br>Amortization | Currency Translation<br>Impact on Carrying<br>Amount | Net Carrying Amount |
| <b>Indefinite-lived intangible assets:</b> |                       |                                   |                             |  |                     |
| Brands and trademarks                      | \$ 63,800             | \$ (36,360)                       | \$ —                        | \$ —   | \$ 27,440           |
| <b>Long-lived intangible assets:</b>       |                       |                                   |                             |  |                     |
| Brands and trademarks                      | 86                    | —                                 | (50)                        | —  | 36                  |
| Acquired technology                        | 5,910                 | —                                 | (4,039)                     | —  | 1,871               |
| Customer relationships                     | 10,780                | —                                 | (10,780)                    | —  | —                   |
| Licenses and domains                       | 205                   | —                                 | (183)                       | —  | 22                  |
| Other                                      | 470                   | —                                 | (470)                       | —  | —                   |
| <b>Total intangible assets</b>             | <b>\$ 81,251</b>      | <b>\$ (36,360)</b>                | <b>\$ (15,522)</b>          | <b>\$ —</b>  | <b>\$ 29,369</b>    |

During the three months ended September 30, 2022, the Company recognized an impairment charge of \$1.8 million related to the Zoosk indefinite-lived trade name that resulted from the slower increase in projected revenue and higher weighted average cost of capital. The Company estimated the fair value using an income approach, specifically the relief-from-royalty method, based on the present value of future cash flows. The Company used a royalty rate of 3% and weighted average cost of capital of 23%.

During the quarter ended June 30, 2021, the Company recognized a Zoosk trade name impairment charge of \$0.3 million.

Amortization expense for the three months ended September 30, 2022 and September 30, 2021 was \$0.4 million and \$0.5 million, respectively. Amortization expense for the nine months ended September 30, 2022 and September 30, 2021 was \$1.0 million and \$3.9 million, respectively.

## Note 5. Accrued Expenses and Other Liabilities

Accrued expenses and other current liabilities consist of the following as of September 30, 2022 and December 31, 2021:

| (in thousands)   | September 30, 2022 | December 31, 2021 |
|--|--------------------|-------------------|
| Accrued advertising  | \$ 4,782           | \$ 6,483          |
| Accrued employee compensation and benefits                   | 1,275              | 1,487             |
| Accrued professional fees                                    | 928                | 835               |
| Accrued service providers                                    | 1,277              | 1,806             |
| Accrued value-added, sales, and other non-income-based taxes | 8,176              | 8,837             |
| Current portion of income tax payable                        | —                  | 3,733             |
| Current portion of lease liabilities                         | 2,323              | 2,325             |
| Other  | 532                | 1,536             |
| Accrued expenses and other current liabilities               | \$ 19,293          | \$ 27,042         |

Other liabilities consist of the following as of September 30, 2022 and December 31, 2021:

| (in thousands)                           | September 30, 2022 | December 31, 2021 |
|--|--------------------|-------------------|
| Deferred payment to Zoosk's shareholders | \$ 12,422          | \$ 11,545         |
| Lease liabilities, less current portion  | 2,016              | 3,887             |
| Sublease security deposit                | 1,038              | 1,038             |
| Other                                    | 2,354              | 1,948             |
| Other liabilities                        | \$ 17,830          | \$ 18,418         |

## Note 6. Long-term Debt

### *MGG Term Loan Agreement*

On March 11, 2022, the Company entered into a Financing Agreement (the "Financing Agreement") with Zoosk, Inc. and Spark Networks, Inc., the subsidiary guarantor party thereto, the lender party thereto, and MGG Investment Group LP ("MGG"), as administrative agent and collateral agent. The Financing Agreement provides for senior secured term loans with an aggregate principal amount of \$100.0 million (collectively, the "Term Loan"). Substantially all of the Company's assets are pledged as collateral. Borrowings under the Term Loan initially accrued interest at a rate equal to LIBOR plus an applicable margin of 7.5% per annum (subject to changes set forth in the Amendment (as defined below)). The proceeds were used to repay in full all amounts outstanding under the loan facilities with Blue Torch Finance LLC. The outstanding principal amounts will be repayable in quarterly payments of \$1.25 million commencing with the quarter ending June 30, 2023 through March 31, 2025, and \$2.50 million commencing with the quarter ending June 30, 2025 and thereafter.

The Term Loan was issued at a discount of 2.0% of the aggregate principal amount of the \$100.0 million. Transaction costs and overhead fees of \$3.5 million and \$0.3 million, respectively, were paid at closing. Through the effective interest rate method, the discount and overhead fees on the Term Loan are amortized to interest expense in the Consolidated Statements of Operations and Comprehensive Loss through the maturity on March 11, 2027 ("Maturity Date"). In addition, pursuant to the terms of the Term Loan, within 5 days after the annual financial statements are required to be delivered to the lender, commencing with the delivery of the fiscal year 2022 audited financial statements, the Company is required to make a prepayment of the loan principal in an amount equal to a percentage of the excess cash flow of the most recently completed fiscal year.

The Financing Agreement requires the following financial covenants to be maintained: (i) subject to changes set forth in the Amendment, quarterly leverage ratio no greater than 4.50 to 1.00 for the quarter ending June 30, 2022, 4.25 to 1.00 through June 30, 2023, 3.75 to 1.00 through June 30, 2024, 3.25 to 1.00 through June 30, 2025, 2.75 to 1.00 through June 30, 2026 and 2.25 to 1.00 through the maturity date of the loan; (ii) marketing efficiency ratio to be less than 1.36 to 1.00 for the quarter ending June 30, 2022 through the maturity date of the loan; and (iii) minimum liquidity of \$5.0 million at any time. In addition, the Financing Agreement contains a number of covenants that, among other things, restrict, subject to certain exceptions, the Company and its subsidiaries' ability to: incur additional indebtedness, create liens, engage in mergers or consolidations, sell or transfer assets, pay dividends and distributions, make share repurchases, make certain acquisitions, engage in certain transactions with affiliates and change lines of business.

On August 5, 2022, the Company entered into an amendment to the Financing Agreement, as amended and restated by that certain Amended and Restated Amendment No. 1 to the Financing Agreement dated as of August 19, 2022 (the "Amendment"). The Amendment revised certain financial covenants associated with the quarterly leverage ratio and requires the Company to maintain quarterly leverage ratio no greater than 6.50 to 1.00 through December 31, 2022, and 6.25 to 1.00 for the quarter ending March 31, 2023. The remaining quarterly leverage ratio did not change. The Amendment also requires the Company's minimum marketing spend for the twelve consecutive month period ending at the end of each fiscal quarter, commencing with the fiscal quarter ending December 31, 2022, not to be less than \$80.0 million. In connection with the Amendment, the Company paid a \$0.3 million amendment fee during August 2022, which will be amortized as interest expense over the remaining life of the loan.

Additionally, the Amendment amended the margin for the Term Loan interest to be set at the levels based on the period for which the leverage ratio is calculated. Specifically, from August 5, 2022 to June 30, 2023, the margin shall be 7.5% or 8.5% on reference rate or LIBOR rate, respectively, based on the leverage ratio greater than or equal to 4.25 to 1.00, or 7.0% or 8.0% on reference rate or LIBOR rate, respectively, based on the leverage ratio less than 4.25 to 1.00, and after June 30, 2023, the margin shall be 7.5% or 8.5% on reference rate or LIBOR rate, respectively, based on the leverage ratio greater than or equal to 3.75 to 1.00, or 7.0% or 8.0% on reference rate or LIBOR rate, respectively, based on the leverage ratio less than 3.75 to 1.00.

As of September 30, 2022, we were in compliance with all such covenants, and the aggregated outstanding principal balance and amortized cost basis of the Term Loan was \$100.0 million and \$94.5 million, respectively. The effective interest rate on the Term loan after the Amendment was 2.6%.

#### *Termination of Blue Torch Term Loan Facility and Blue Torch Revolving Credit Facility*

During the quarter ended March 31, 2022, the Company used funds borrowed under the Financing Agreement to pay off the outstanding balance of the debt under the existing Blue Torch term loan facility (the "Blue Torch Term Loan Facility") with a principal amount of \$ 85.6 million, and the amortized cost basis of \$82.1 million as of December 31, 2021. The Company terminated the Blue Torch Loan Facility and recognized a loss on extinguishment of debt of \$3.9 million, which is comprised of \$3.0 million of unamortized debt issuance cost offset by the debt discount with the Blue Torch Term Loan Facility, and a prepayment penalty of \$ 0.9 million. The loss on extinguishment of debt is included in the Interest expense on the Company's Condensed Consolidated Statement of Operations and Comprehensive Loss for the three months ended March 31, 2022.

Additionally, the Company terminated the existing Blue Torch revolving credit facility (the "Blue Torch Revolving Credit Facility") and recognized a loss on extinguishment of debt of \$0.1 million during the quarter ended March 31, 2022 for unamortized transaction costs and upfront fees related to the Blue Torch Revolving Credit Facility, which was included in Interest expense in the Company's Condensed Consolidated Statement of Operations and Comprehensive Loss. There was no outstanding debt under the Blue Torch Revolving Credit Facility at the time of termination.

#### **Note 7. Contingencies**

The Company is involved in lawsuits, claims and proceedings incident to the ordinary course of business and establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Management has also identified certain other legal matters where the Company believes an unfavorable outcome is not probable and, therefore, no reserve is established. Any claims against the Company, whether meritorious or not, could result in costly litigation, require significant amounts of management's time and result in the diversion of significant operational resources. The results of these lawsuits, claims and proceedings cannot be predicted with certainty. However, the Company believes that the ultimate resolution of these current matters will not have a material adverse effect on its liquidity, results of operations or financial condition.

### Cybersecurity Matters

On July 22, 2020, a putative class action was filed against the Company and Zoosk in the U.S. District Court for the Northern District of California by individuals claiming to be Zoosk users whose information was affected by the 2020 security incident disclosed by Zoosk. The complaint, as subsequently amended, asserts that by reason of the Zoosk security incident Spark and Zoosk violated the California Consumer Privacy Act ("CCPA"), the California Unfair Competition Law ("UCL"), and common-law obligations. Based on these assertions, the complaint seeks statutory damages, compensatory damages, punitive damages, attorneys' fees, and injunctive relief. On December 14, 2020, plaintiffs voluntarily withdrew their claim under the CCPA. On January 30, 2021, the district court granted in part, and denied in part, Zoosk's motion to dismiss the remainder of the complaint for failure to state a claim by dismissing the UCL claim, but allowing the common-law claim to go forward. The court held in abeyance the Company's motion to dismiss itself on jurisdictional grounds and for failure to state a claim. The court granted plaintiffs limited jurisdictional discovery as to the Company. Zoosk answered the portion of the complaint that asserts the one remaining common-law claim by denying its material allegations and asserting a number of affirmative defenses. The court stayed the case pending resolution of the jurisdictional discovery. On May 6, 2021, plaintiffs voluntarily dismissed the Company from the case and the stay was lifted. On July 28, 2021, plaintiffs filed a second amended complaint re-alleging the UCL claim on behalf of a subclass. The court granted Zoosk's motion to dismiss that amended claim on October 5, 2021. On October 28, 2021, plaintiffs sought leave to file a third amended complaint that re-alleges a UCL claim. Following briefing and oral argument, the court granted plaintiffs' motion for leave to file an amended complaint as to one theory of UCL liability and ordered plaintiffs either file the third amended complaint or seek leave to file a fourth amended complaint by February 17, 2022. Plaintiffs filed a third amended complaint, then sought leave to file a fourth amended complaint to substitute one of the two named plaintiffs. On March 31, 2022, the court granted Zoosk's motion to dismiss with prejudice one named plaintiff for failure to prosecute. The court also granted Plaintiffs' motion to substitute the dismissed plaintiff with a new plaintiff but ordered Plaintiffs to reimburse Zoosk for reasonable costs and attorney fees incurred in connection with the dismissed named plaintiff. Fact discovery concluded on April 29, 2022 except as to discovery from the new named plaintiff, and the parties are engaged in expert discovery. The parties have submitted a proposed order to the court setting the deadline for plaintiffs' motion for class certification on May 20, 2022 and trial in late 2022. On July 27, 2022, the U.S. District Court for the Northern District of California denied the plaintiff's move for class certification due to the valid class action waiver the plaintiff agreed to in Zoosk's Terms of Use (the "TOU"). The parties reached a confidential settlement agreement on September 6, 2022 and the plaintiffs dismissed the class action with prejudice on September 8, 2022. The Company does not expect such settlement to have any material impact to the Company's consolidated financial position.

Separately, a group of lawyers that is different from those who filed the putative class action described above filed 77 separate arbitration demands against Zoosk in the Judicial Arbitration and Mediation Services, Inc. ("JAMS") arbitration forum. Zoosk has objected that neither JAMS nor any arbitrator appointed by JAMS has authority to arbitrate any of these claims or to rule on the issue of arbitrability. JAMS decided to commence arbitration proceedings in regard to one of the arbitration claims filed to date, but that claim was withdrawn in November 2021 as it was established that the claimant was not affected by the incident. On May 5, 2021, the same group of attorneys that filed the arbitration demands, described above, filed a petition to compel arbitration in the U.S. District Court for the Northern District of California on behalf of three other individuals claiming to be Zoosk users affected by the 2020 security incident. The attorneys then voluntarily dismissed the petition in its entirety on July 15, 2021. JAMS has initiated three further arbitration claims previously filed and intends to proceed with those arbitrations if requisite fees are paid. Zoosk has refused to pay the respondents' share of the initiation fee for those arbitrations. On December 8, 2021, the same attorneys then filed a petition to compel arbitration in Orange County Superior Court in California on behalf of those three individuals. In response, Zoosk filed a motion to dismiss the California petition based on the forum selection clause in the Zoosk TOU that selects New York as the venue for any dispute. Zoosk's motion to dismiss was granted in April 2022. Zoosk has also filed a petition to stay arbitration in New York on the basis that the claimants breached the TOU when they filed their arbitration demands and Zoosk is therefore under no obligation to arbitrate.

### Intellectual Property

Trademarks are an important element in running online dating websites and mobile applications. Given the large number of markets and brands, the Company deals with claims against its trademarks from time to time in the ordinary course of business. The Company vigorously defends against each of the above legal proceedings.

The Company may encounter future legal claims in the normal course of business.

### Hungarian Proceeding

On May 18, 2022, the Hungarian Competition Authority (the “GVH”) initiated a proceeding against Spark Networks Services GmbH alleging unfair commercial practices concerning the Company’s Hungarian EliteSingles (in Hungarian: *Elitárs*) dating service. As a result of the proceeding, the GVH could determine that certain commercial practices were not compliant with Hungarian laws and may need to be changed. In addition, the GVH could impose fines. We expect the proceeding to take 12-18 months; at this early stage, we cannot predict the outcome of the proceeding. Accordingly, we cannot predict what the GVH may determine regarding the Company’s compliance with Hungarian laws or whether the GVH might impose any fines.

At this time, management does not believe the above matters, either individually or in the aggregate, will have a material adverse effect on the Company’s results of operations or financial condition and believes the recorded legal provisions as of September 30, 2022 are adequate with respect to the probable and estimable liabilities. However, no assurance can be given that these matters will be resolved in the Company’s favor.

## **Note 8. Financial Instruments and Fair Value Measurements**

### **Financial Instruments**

The Company records long-term debt at carrying value less unamortized discount and unamortized fees as it is not required to be carried at fair value on a recurring basis. The fair value of long-term debt was determined using observable inputs (Level 2). The valuation considers the present value of expected future repayments, discounted using a market interest rate equal to the interest margin on the borrowings and variable interest rate.

The following table presents the carrying values and the estimated fair values of long-term debt as of September 30, 2022 and December 31, 2021:

| (in thousands)   | September 30, 2022 |            | December 31, 2021 |            |
|--|--------------------|------------|-------------------|------------|
|  | Carrying Value     | Fair Value | Carrying Value    | Fair Value |
| Long-term debt, including current portion <sup>(1)</sup> | \$ 94,545          | \$ 97,371  | \$ 82,124         | \$ 96,089  |

<sup>(1)</sup> As of September 30, 2022 and December 31, 2021, the carrying value of long-term debt is net of unamortized original issue discount, and debt issuance costs and the amendment fee relating to the Amendment in an aggregate amount of \$5.5 million and \$3.4 million, respectively.

The Company’s financial instruments, including cash and cash equivalents, deposits, accounts receivable, and accounts payable are carried at cost, which approximates their fair value due to the short-term nature of these instruments. The Company does not have financial instruments that are measured at fair value on a recurring basis as of September 30, 2022 and December 31, 2021.

### **Assets Measured at Fair Value on a Non-recurring Basis**

Certain assets, such as goodwill and intangible assets, are measured at fair value on a non-recurring basis. For goodwill, the process involves using a market approach and income approach (using discounted estimated cash flows) to determine the fair value of each reporting unit on a stand-alone basis. That fair value is compared to the carrying value of the reporting unit, including its recorded goodwill. Impairment is considered to have occurred if the fair value of the reporting unit is lower than the carrying value of the reporting unit. For the indefinite lived intangible assets, the Company estimated the fair value using a relief-from-royalty method, which includes unobservable inputs, including projected revenues, royalty rates and weighted average cost of capital. Impairment is considered to have occurred if the fair value of the intangible asset is lower than its carrying value. The fair value measurements for goodwill and the indefinite lived intangible assets are considered Level 3 and these assets are recognized at fair value if they are deemed to be impaired. During the three months ended September 30, 2022, the Company recognized an impairment charge of \$11.8 million for the Zoosk trade name. During the three months ended June 30, 2021, the Company recognized a goodwill impairment charge of \$21.8 million for the Zoosk reporting unit and a Zoosk trade name impairment charge of \$10.3 million. See Note 4. *Goodwill and Intangible Assets* for further discussion of the impairment.

## Note 9. Stock-based Compensation and Shareholders' Equity

Stock-based compensation expense reflects share awards issued under the Company's 2018 virtual stock option plan and the Long Term Incentive Plan adopted in 2020 (the "LTIP"). For the three months ended September 30, 2022 and 2021, the Company recognized total stock-based compensation expense for all the plans of \$0.5 million and \$0.5 million, respectively, and for the nine months ended September 30, 2022 and 2021, the Company recognized total stock-based compensation expense for all the plans of \$1.5 million and \$2.1 million, respectively. Total stock-based compensation expense is included as a component of Other operating expenses in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

### 2020 Long Term Incentive Plan

The LTIP provides for the grant of virtual stock options, where each option represents the right to receive, upon exercise, a certain amount in cash determined based on the relevant ADS Stock Price of the option minus the strike price of such options; provided, however, that the Company may elect to settle options in ADSs or ordinary shares of the Company instead of cash. In connection with the adoption of the LTIP, the Administrative Board of the Company (the "Administrative Board") authorized the issuance of virtual options for up to 3.5 million American Depository Shares ("ADSs"), subject to limitations imposed by German law. As of September 30, 2022, 117,080 ADSs have been issued pursuant to previous exercises.

The fair value of the virtual stock options and zero-priced options are measured using a Back-Scholes option-pricing model. The inputs used in the measurement of the fair values at the date of grant for the options issued during the nine months ended September 30, 2022 are summarized below:

|                | Virtual Stock Options |                         | Zero-Priced Options |                         |
|----------------|-----------------------|-------------------------|---------------------|-------------------------|
|                | Long Call Option      | Short Call Option (Cap) | Long Call Option    | Short Call Option (Cap) |
| Stock price    | \$1.91 - \$3.19       | \$1.91 - \$3.19         | \$1.91 - \$3.19     | \$1.91 - \$3.19         |
| Strike price   | \$2.04 - \$3.37       | \$20.40 - \$33.70       | \$—                 | \$50.00                 |
| Term           | 4.65                  | 4.65                    | 4.65                | 4.65                    |
| Volatility     | 65.0% - 69.0%         | 65.0% - 69.0%           | 65.0% - 69.0%       | 65.0% - 69.0%           |
| Dividend       | —%                    | —%                      | —%                  | —%                      |
| Risk-free rate | 2.4% - 4.1%           | 2.4% - 4.1%             | 2.4% - 4.1%         | 2.4% - 4.1%             |

The following table summarizes the activity for the Company's options under the LTIP during the nine months ended September 30, 2022:

|  | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term<br>(in years) | Aggregate Intrinsic Value |
|--|-------------------|---------------------------------|---|---------------------------|
| Outstanding as of December 31, 2021          | 1,802,228         | \$4.71                          | 5.62  | \$0.01                    |
| Granted                                      | 1,034,000         | 2.95                            |   |                           |
| Forfeited                                    | (378,171)         | 4.04                            |   |                           |
| Outstanding as of September 30, 2022         | 2,458,057         | 4.07                            | 5.47  | —                         |
| Vested and exercisable at September 30, 2022 | 920,874           | \$4.77                          | 4.62  | \$—                       |



|                                   | Number of Options | Weighted Average Grant Date Fair Value |
|-----------------------------------|-------------------|--|
| Unvested as of December 31, 2021  | 1,190,967         | \$2.53                                 |
| Granted                           | 1,034,000         | 1.12                                   |
| Vested                            | (309,613)         | 2.64                                   |
| Forfeited                         | (378,171)         | 1.93                                   |
| Unvested as of September 30, 2022 | <u>1,537,183</u>  | \$1.71                                 |

The following table summarizes the activity for the Company's zero priced options under the LTIP during the nine months ended September 30, 2022:

|  | Number of Options |
|--|-------------------|
| Outstanding as of December 31, 2021          | 584,068           |
| Granted                                      | 524,500           |
| Forfeited                                    | (136,886)         |
| Outstanding as of September 30, 2022         | 971,682           |
| Vested and exercisable at September 30, 2022 | 210,256           |

|                                   | Number of Options | Weighted Average Grant Date Fair Value |
|-----------------------------------|-------------------|--|
| Unvested as of December 31, 2021  | 514,370           | \$5.29                                 |
| Granted                           | 524,500           | 2.57                                   |
| Vested                            | (140,558)         | 5.51                                   |
| Forfeited                         | (136,886)         | 3.87                                   |
| Unvested as of September 30, 2022 | <u>761,426</u>    | \$3.64                                 |

The total unrecognized compensation expense related to awards granted under the LTIP at September 30, 2022 was €2.4 million, which will be recognized over a weighted-average period of 2.93 years.

As of September 30, 2022 and 2021, diluted loss per share excludes 1,443,886 and 896,244 potentially dilutive common shares, respectively, related to vested option awards, as their effect was anti-dilutive.

#### *Authorized Capital 2022*

At the 2022 Annual Meeting of Shareholders of the Company held on August 31, 2022, the Company's shareholders approved an amendment to the Company's Articles of Association to: (a) cancel an authorized capital in the original amount of EUR 640,000.00 (the "Authorized Capital 2017") that could be utilized by the Company's Administrative Board until October 31, 2022 on one or several occasions to increase the Company's share capital against contributions in cash and/or in kind, and (b) create a new authorized capital in the amount of EUR 1,064,554.00 (the "Authorized Capital 2022") that can be utilized by the Administrative Board until August 29, 2027 on one or several occasions to increase the Company's share capital against contributions in cash and/or in kind (the "Amended Articles of Association"). The Amended Articles of Association became effective on September 14, 2022 upon registration with the commercial register (Handelsregister) of the local court (Amtsgericht) of Munich, Germany. An amount of EUR 593,481.00 was available under the Authorized Capital 2017 at the time of its cancellation.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This section and other parts of this Quarterly Report on Form 10-Q ("Form 10-Q") contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can be identified by words such as "future," "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "will," "would," "could," "can," "may," and similar terms. Forward-looking statements are not guarantees of future performance and the Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2021 ("2021 Form 10-K") under the heading "Risk Factors." The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law. Except the context clearly indicates otherwise, the terms "the Company," "Spark Networks," "we," "us" or "our" refer to Spark Networks SE and its consolidated subsidiaries.

### Overview

We are a leader in social dating platforms for meaningful relationships focusing on the 40+ age demographic and faith-based affiliations. Since our inception, we have had 110 million users register with our dating platforms (which includes inactive accounts). We currently operate one or more of our brands worldwide.

We intend to continue to expand our presence in North America through significant marketing investment in this region as we look to drive both organic growth of our existing brand portfolio and expansion through the launch of new or acquired brands. We intend to incorporate more social features in our products with content, community and social discovery functionality to allow our users to meet in more informal ways and to provide new ways to date online. We believe our portfolio of strong brands along with our improved financial strength positions us to deliver a superior user experience to our customers and drive long-term value to shareholders.

Our ability to compete effectively will depend upon our ability to address the needs of our members and paying subscribers, on the timely introduction and performance of innovative features and services associated with our brands, and our ability to respond to services and features introduced by competitors. We must also achieve these objectives within the parameters of our consolidated and operating segment profitability targets. We are focused on enhancing and augmenting our portfolio of services while also continuing to improve the efficiency and effectiveness of our operations. We believe we have sufficient available cash resources on hand to accomplish the enhancements currently contemplated.

### *Operations Overview*

We offer services both via websites and mobile applications and utilize a "subscription" business model, where certain basic functionalities are provided free of charge, while providing premium features (such as interacting with other community members via messages) only to paying subscribers. We generate revenues primarily through paid membership subscriptions. We manage our operations through one reportable segment.

### *Foreign Currency Exchange and Inflation Risks*

In addition to operating in the United States ("U.S."), we also operate in various markets outside the U.S., primarily in various jurisdictions within the European Union ("EU"), and as a result, are exposed to foreign exchange risk for the Euro, U.S. dollar, British pound, Australian dollar and Canadian dollar. Financial statements of subsidiaries outside the U.S. are generally measured using the local currency as the functional currency. We translate revenue generated outside the U.S. (the "non-U.S. revenue") into U.S. dollar-denominated operating results and during periods of a strengthening U.S. dollar, such revenue will be reduced when translated into U.S. dollars. In addition, as foreign currency exchange rates fluctuate, the translation of the non-U.S. revenue into U.S. dollar-denominated operating results affects the period-over-period comparability of such results and can result in foreign currency exchange gains or losses. During the nine months ended September 30, 2022, 31.9% of our total revenue was non-U.S. revenue. The average U.S. dollar versus Euro exchange rate was 17.1% and 12.6% higher, respectively, during the three and nine months ended September 30, 2022 compared to the same periods prior year. The strengthening in U.S. dollar against other major currencies has partially resulted in the decreases in our total revenue for the current periods. Historically, we have not hedged any foreign currency exposures. If the U.S. dollar continues strengthening against the Euro and other foreign currencies that our revenue is earned in, our exposure to exchange rate fluctuations will increase, and as a result, such fluctuations could adversely affect our future results of operations.

Inflation has increased during the periods covered by this Quarterly Report, and is expected to continue to increase for the near future. Inflationary factors, such as increases in customer acquisition costs, interest rates and overhead costs may adversely affect our operating results. Historically, we have been able to increase prices at a rate equal to or greater than that of inflation and we do not believe that inflation has had a material impact on our financial position or results of operations to date, we may experience some effect in the future, especially if inflation rates continue to rise.

#### *COVID-19 Update*

Management continues to actively monitor the novel coronavirus ("COVID-19") developments and potential impact on our employees, business and operations. The effects of COVID-19 did not have a material impact on our result of operations or financial condition for the period ended September 30, 2022. However, given the evolution of the COVID-19 situation, and the global responses to curb its spread, we are not able to estimate the effects COVID-19 may have on our future results of operations or financial condition.

#### **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 the business. The key business metrics that we utilize include the following:

##### *Total Registrations*

Total registrations are defined as the total number of new members registering to our platforms with their email address. Those include members who enter into premium subscriptions and free memberships.

##### *Average Paying Subscribers*

Paying subscribers are defined as individuals who have paid a monthly fee for access to premium services, which include, among others, unlimited communication with other registered users, access to user profile pictures and enhanced search functionality. Average paying subscribers for each month are calculated as the sum of the paying subscribers at the beginning and the end of the month, divided by two. Average paying subscribers for periods longer than one month are calculated as the sum of the average paying subscribers for each month, divided by the number of months in such period.

##### *Monthly Average Revenue Per User ("ARPU")*

Monthly ARPU 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.

##### *Contribution*

Contribution is defined as revenue, net of refunds and credit card chargebacks, less direct marketing.

##### *Direct Marketing*

Direct Marketing is defined as online and offline advertising spend and is included within Cost of revenue, exclusive of depreciation and amortization within our Condensed Consolidated Statements of Operations and Comprehensive Loss.

Unaudited selected statistical information regarding the key business metrics described above is shown in the table below:

|                            | Three Months Ended<br>September 30, |           | Change    | % Change | Nine Months Ended<br>September 30, |            | Change    | % Change |
|----------------------------|-------------------------------------|-----------|-----------|----------|------------------------------------|------------|-----------|----------|
|                            | 2022                                | 2021      |           |          | 2022                               | 2021       |           |          |
| Registrations              | 2,863,198                           | 3,398,389 | (535,191) | (15.7)%  | 9,883,939                          | 10,192,943 | (309,004) | (3.0)%   |
| Average Paying Subscribers | 823,737                             | 865,752   | (42,016)  | (4.9)%   | 830,769                            | 880,238    | (49,469)  | (5.6)%   |
| Total Monthly ARPU         | \$ 19.50                            | \$ 20.52  | \$ (1.02) | (5.0)%   | \$ 19.54                           | \$ 20.82   | \$ (1.28) | (6.1)%   |

| (in thousands)   | Three Months Ended<br>September 30, |           | Change     | % Change | Nine Months Ended<br>September 30, |            | Change      | % Change |
|------------------|-------------------------------------|-----------|------------|----------|------------------------------------|------------|-------------|----------|
|                  | 2022                                | 2021      |            |          | 2022                               | 2021       |             |          |
| Net Revenue      | \$ 48,180                           | \$ 53,297 | \$ (5,117) | (9.6)%   | \$ 146,122                         | \$ 164,929 | \$ (18,807) | (11.4)%  |
| Direct Marketing | 21,001                              | 27,988    | (6,987)    | (25.0)%  | 78,692                             | 84,817     | (6,125)     | (7.2)%   |
| Contribution     | \$ 27,179                           | \$ 25,309 | \$ 1,870   | 7.4 %    | \$ 67,430                          | \$ 80,112  | \$ (12,682) | (15.8)%  |

During the three and nine months ended September 30, 2022, new members registered to our platforms decreased by 0.5 million, or 15.7%, and 0.3 million, or 3.0%, respectively, compared to the same periods in 2021. Average paying subscribers during the three and nine months ended September 30, 2022 decreased by less than 0.1 million, or 4.9%, and 0.1 million, or 5.6%, respectively, compared to the same periods in 2021. The decreases were primarily driven by lower marketing spend.

Monthly ARPU for the three and nine months ended September 30, 2022 decreased by 5.0% and 6.1%, respectively, compared to the same periods in 2021. The decline in ARPU was a result of currency fluctuations and our emphasis on longer duration subscriptions through price incentives.

## Results of Operations

The following table shows our results of operations for the periods presented. The period-over-period comparison of our historical results are not necessarily indicative of the results that may be expected in the future.

| (in thousands)  | Three Months Ended September 30, |            |            |          |
|---|----------------------------------|------------|------------|----------|
|   | 2022                             | 2021       | \$ Change  | % Change |
| Revenue   | \$ 48,180                        | \$ 53,297  | \$ (5,117) | (9.6)%   |
| Operating costs and expenses:                               |                                  |            |            |          |
| Cost of revenue, exclusive of depreciation and amortization | 27,231                           | 34,804     | (7,573)    | (21.8)%  |
| Other operating expenses                                    | 13,778                           | 14,441     | (663)      | (4.6)%   |
| Depreciation and amortization                               | 576                              | 1,060      | (484)      | (45.7)%  |
| Impairment of goodwill and intangible assets                | 11,790                           | —          | 11,790     |          |
| Total operating costs and expenses                          | 53,375                           | 50,305     | 3,070      | 6.1 %    |
| Operating (loss) income                                     | (5,195)                          | 2,992      | (8,187)    | (273.6)% |
| Other income (expense):                                     |                                  |            |            |          |
| Interest expense  | (3,209)                          | (3,110)    | (99)       | 3.2 %    |
| Loss on foreign currency transactions                       | (2,799)                          | (978)      | (1,821)    | 186.2 %  |
| Other income, net   | 38                               | 7          | 31         | 442.9 %  |
| Total other expense, net                                    | (5,970)                          | (4,081)    | (1,889)    | 46.3 %   |
| Loss before income taxes                                    | (11,165)                         | (1,089)    | (10,076)   | 925.3 %  |
| Income tax benefit (expense)                                | 453                              | (1,601)    | 2,054      | (128.3)% |
| Net loss  | \$ (10,712)                      | \$ (2,690) | \$ (8,022) | 298.2 %  |

| (in thousands)  | Nine Months Ended September 30, |             |             |           |
|---|---------------------------------|-------------|-------------|-----------|
|   | 2022                            | 2021        | \$ Change   | % Change  |
| Revenue   | \$ 146,122                      | \$ 164,929  | \$ (18,807) | (11.4)%   |
| Operating costs and expenses:                               |                                 |             |             |           |
| Cost of revenue, exclusive of depreciation and amortization | 97,833                          | 104,603     | (6,770)     | (6.5)%    |
| Other operating expenses                                    | 43,733                          | 45,516      | (1,783)     | (3.9)%    |
| Depreciation and amortization                               | 1,756                           | 5,648       | (3,892)     | (68.9)%   |
| Impairment of goodwill and intangible assets                | 11,790                          | 32,086      | (20,296)    | (63.3)%   |
| Total operating costs and expenses                          | 155,112                         | 187,853     | (32,741)    | (17.4)%   |
| Operating loss  | (8,990)                         | (22,924)    | 13,934      | (60.8)%   |
| Other income (expense):                                     |                                 |             |             |           |
| Interest expense  | (12,797)                        | (10,352)    | (2,445)     | 23.6 %    |
| Loss on foreign currency transactions                       | (6,007)                         | (2,122)     | (3,885)     | 183.1 %   |
| Other income (expense), net                                 | 298                             | (11)        | 309         | (2809.1)% |
| Total other expense, net                                    | (18,506)                        | (12,485)    | (6,021)     | 48.2 %    |
| Loss before income taxes                                    | (27,496)                        | (35,409)    | 7,913       | (22.3)%   |
| Income tax benefit (expense)                                | 552                             | (22,812)    | 23,364      | (102.4)%  |
| Net loss  | \$ (26,944)                     | \$ (58,221) | \$ 31,277   | (53.7)%   |

*Comparison of Three and Nine Months Ended September 30, 2022 and September 30, 2021*

*Revenue*

Revenue during the three and nine months ended September 30, 2022 decreased by \$5.1 million, or 9.6%, and \$18.8 million, or 11.4%, respectively, compared to the same periods in 2021. For the three and nine months ended September 30, 2022, the decline in revenue was attributable to the decrease in the number of average paying subscribers of 4.9% and 5.6%, respectively, as well as the fluctuations of foreign exchange rate as the U.S. dollar strengthened against all major currencies. For the nine months ended September 30, 2022, 31.9% of total revenue was generated outside the United States. During the three months ended September 30, 2022, the Company recognized \$2.2 million of revenue that had been included in the Company's deferred revenue balance related to the virtual currency purchased 12 months prior to September 30, 2022 due to a change in accounting estimate. See Note 1. *Basis of Presentation and Summary of Significant Accounting Policies* in the Notes to the Condensed Consolidated Financial Statements included in Item 1 of this Form 10-Q for further discussion of change in accounting estimate.

*Cost of revenue, exclusive of depreciation and amortization*

Cost of revenue, exclusive of depreciation and amortization consists primarily of direct marketing expenses, data center expenses, credit card fees and mobile application processing fees. Cost of revenue during the three and nine months ended September 30, 2022 decreased by \$7.6 million, or 21.8%, and \$6.8 million, or 6.5%, respectively, compared to the same periods in 2021. The decreases were primarily due to the decline in marketing spend. Direct marketing costs during the three and nine months ended September 30, 2022 decreased by \$7.0 million, or 25.0%, and \$6.1 million, or 7.2%, respectively, compared to the same periods in 2021.

*Other operating expenses*

Other operating expenses consists primarily of costs for sales and marketing, customer service, technical operations and development, and corporate functions. These costs include personnel, technology platform and system costs, third-party service and professional fees, occupancy and other overhead costs. Other operating expenses during the three and nine months ended September 30, 2022 decreased by \$0.7 million, or 4.6%, and 1.8 million, or 3.9%, respectively, compared to the same periods in 2021. The decreases were primarily driven by increased capitalization of personnel and freelancer costs related to new product initiatives, as well as decreases in technical operations and development consulting costs. The decreases in other operating expenses were partially offset by an increase in sales and marketing expenses due to higher personnel costs driven by increased headcount, and higher consulting costs.

*Depreciation and amortization*

Depreciation and amortization during the three and nine months ended September 30, 2022 decreased by \$0.5 million, or 45.7%, and \$3.9 million, or 68.9%, respectively, compared to the same periods in 2021. The decreases were primarily driven by the decrease in amortization of our customer relationships asset which was fully amortized in 2021.

*Impairment of goodwill and intangible assets*

During the three months ended September 30, 2022, the Company recorded an impairment charge of \$11.8 million for the Zoosk trade name. During the three months ended June 30, 2021, the Company recorded a goodwill impairment charge of \$21.8 million for the Zoosk reporting unit and recognized a Zoosk trade name impairment charge of \$10.3 million. See Note 4. *Goodwill and Intangible Assets* for further discussion of the impairment.

*Other income (expense), net*

Other income (expense), net, consists primarily of interest income and expenses, foreign exchange gains and losses, and other related finance costs. Other expenses, net, during the three months ended September 30, 2022 increased by \$1.9 million, or 46.3%, compared to the same period in 2021. The increase was primarily driven by an increase in loss on foreign currency transactions in the current period.

Other expenses, net, during the nine months ended September 30, 2022 increased by \$6.0 million, or 48.2%, compared to the same periods in 2021. The increase was primarily driven by increases in interest expense and loss on foreign currency transactions. The increase in interest expense was primarily related to the \$4.0 million loss on extinguishment of debt in connection with the Blue Torch Term Loan Facility and Blue Torch Revolving Credit Facility during the quarter ended March 31, 2022. See Note 6. *Long-term Debt* for further discussion of the debt extinguishment.

#### *Income tax benefit (expense)*

Income tax benefit was \$0.5 million for the three months ended September 30, 2022 compared to income tax expense of \$1.6 million for the three months ended September 30, 2021, which reflects an effective tax rate of 4.1% and (146.0)%, respectively. Income tax benefit was \$0.6 million for the nine months ended September 30, 2022 compared to income tax expense of \$22.8 million for the nine months ended September 30, 2021, which reflects an effective tax rate of 2.0% and (64.5)%, respectively. The changes in income tax provision were primarily driven by the Company benefiting from year to date losses in the U.S. jurisdiction and the June 2021 establishment of a valuation allowance against US deferred tax assets. See Note 3. *Income Taxes* in the Notes to the Condensed Consolidated Financial Statements included in Item 1 of this Form 10-Q for further discussion of income taxes.

#### **Non-U.S. GAAP Financial Measures**

We report our financial results in accordance with U.S. GAAP. However, management believes that certain non-U.S. GAAP financial measures provide users of our financial information with additional useful information in evaluating our performance.

#### *Adjusted EBITDA*

Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), a non-U.S. GAAP financial measure, is one of the primary metrics by which we evaluate the performance of our business, budget, forecast and compensate management. We believe this measure provides management and investors with a consistent view, period to period, of the core earnings generated from the ongoing operations and allows for greater transparency with respect to key metrics used by senior leadership in its financial and operational decision-making. We define Adjusted EBITDA as net earnings (loss) excluding interest expense, (gain) loss on foreign currency transactions, income tax (benefit) expense, depreciation and amortization, asset impairments, stock-based compensation expense, acquisition related costs and other costs. Adjusted EBITDA has inherent limitations in evaluating the performance of the Company, including, but not limited to the following:

- Adjusted EBITDA does not reflect the cash capital expenditures during the measurement period;
- Adjusted EBITDA does not reflect any changes in working capital requirements during the measurement period;
- Adjusted EBITDA does not reflect the cash tax payments during the measurement period; and
- Adjusted EBITDA may be calculated differently by other companies in our industry, thus limiting its value as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including net income (loss) and our other U.S. GAAP results. The following table reconciles Net loss to Adjusted EBITDA for the periods presented:

| (in thousands)                               | Three Months Ended September 30, |                 | Nine Months Ended September 30, |                  |
|--|----------------------------------|-----------------|---------------------------------|------------------|
|  | 2022                             | 2021            | 2022                            | 2021             |
| <b>Net loss</b>                              | \$ (10,712)                      | \$ (2,690)      | \$ (26,944)                     | \$ (58,221)      |
| Net interest expense                         | 3,182                            | 3,110           | 12,770                          | 10,352           |
| Loss on foreign currency transactions        | 2,799                            | 978             | 6,007                           | 2,122            |
| Income tax (benefit) expense                 | (453)                            | 1,601           | (552)                           | 22,812           |
| Depreciation and amortization                | 576                              | 1,060           | 1,756                           | 5,648            |
| Impairment of goodwill and intangible assets | 11,790                           | —               | 11,790                          | 32,086           |
| Stock-based compensation expense             | 518                              | 482             | 1,510                           | 2,098            |
| Other costs <sup>(1)</sup>                   | 578                              | 412             | 1,214                           | 1,822            |
| <b>Adjusted EBITDA</b>                       | <b>\$ 8,278</b>                  | <b>\$ 4,953</b> | <b>\$ 7,551</b>                 | <b>\$ 18,719</b> |

<sup>(1)</sup> Includes primarily consulting and advisory fees related to special projects, as well as non-cash acquisition related expenses, post-merger integration activities and long-term debt transaction and advisory fees.

### Liquidity and Capital Resources

The Company's principal sources of liquidity are cash balances and cash flows from operations and borrowings. Our ongoing liquidity requirements arise primarily from working capital needs, research and development requirements and the debt service. In addition, we may use liquidity to fund acquisitions or make other investments. As of September 30, 2022, we had cash and cash equivalents of \$12.7 million.

On March 11, 2022, the Company completed the successful refinancing of its existing term and revolving facility with borrowings under the Financing Agreement with MGG Investment Group LP, which provides more covenant flexibility and allows more resources to be invested into the business to drive growth. The Financing Agreement was amended on August 5, 2022 and the amendment was further amended and restated on August 19, 2022 to, among other matters, revise certain financial covenants related to quarterly testing of the Company's leverage ratio. As of September 30, 2022 and December 31, 2021, we had outstanding principal debt balance of \$100.0 million and \$85.6 million, respectively. See Note 6. *Long-term Debt* in the Notes to the Condensed Consolidated Financial Statements included in Item 1 of this Form 10-Q for further discussion of our debt.

We believe that our current cash and cash flow from operations will be sufficient to meet our anticipated cash needs for financial liabilities, capital expenditures and contractual obligations, for at least the next 12 months. Our future capital requirements and the adequacy of available funds will depend on many factors and those set forth in Part II, Item 1A "Risk Factors" of our 2021 Form 10-K. We do not have any off-balance sheet arrangements as of September 30, 2022.

### Cash Flows Information

The following table summarizes our cash flows for the periods presented:

| (in thousands)  | Nine Months Ended September 30, |            |             |
|---|---------------------------------|------------|-------------|
|   | 2022                            | 2021       | \$ Change   |
| Net cash provided by (used in):                             |                                 |            |             |
| Operating activities  | \$ (8,277)                      | \$ 9,589   | \$ (17,866) |
| Investing activities  | (1,982)                         | (905)      | (1,077)     |
| Financing activities  | 7,336                           | (16,766)   | 24,102      |
| Net change in cash and cash equivalents and restricted cash | \$ (2,923)                      | \$ (8,082) | \$ 5,159    |



### *Operating Activities*

Our cash flows from operating activities primarily include net loss adjusted for (i) non-cash items included in net loss, such as unrealized loss on foreign currency transactions, amortization of debt issuance costs and accretion of debt discounts, depreciation and amortization, impairment of goodwill and intangible assets, and stock-based compensation and (ii) changes in the balances of operating assets and liabilities.

Net cash used in operating activities was \$8.3 million for the nine months ended September 30, 2022, compared to \$9.6 million net cash provided by operating activities during the same period in 2021. The increase in cash outflows was primarily driven by a decrease in cash collected from our customers, higher cash payments of income taxes, and an increase in payments to our vendors as a result of timing of payments.

### *Investing Activities*

Our cash flows from investing activities primarily include development of internal-use software, and purchase of property and equipment.

Net cash used in investing activities was \$2.0 million for the nine months ended September 30, 2022, an increase of \$1.1 million compared to \$0.9 million during the nine months ended September 30, 2022. The increase was primarily due to additional capital expenditures on personnel and freelancers working on software development projects during the nine months ended September 30, 2022.

### *Financing Activities*

Our cash flows from financing activities primarily include changes in long-term debt.

Net cash provided by financing activities was \$7.3 million for the nine months ended September 30, 2022, an increase of \$24.1 million cash inflows compared to the net cash used in financing activities of \$16.8 million during the same period in 2021. Net cash provided by financing activities for the nine months ended September 30, 2022 included \$97.8 million of net cash proceeds from the Term Loan, partially offset by the \$85.6 million repayment of debt and the \$0.9 million prepayment penalty under the then existing Blue Torch Term Loan Facility, as well as \$3.7 million of transaction costs paid to third parties in connection with the Term Loan and \$0.3 million amendment fee paid in connection with the Amendment. See Note 6. *Long-term Debt* for detail information. Net cash used in financing activities for the nine months ended September 30, 2021 included \$16.2 million principal payments made on the Blue Torch Term Loan Facility and a \$0.5 million fee paid in connection with the execution of the Limited Waiver under Loan Agreement in March 2021.

### **Recent Accounting Pronouncements**

See Note 1. *Basis of Presentation and Summary of Significant Accounting Policies* in the Notes to the Condensed Consolidated Financial Statements included in Part I. Item 1. of this Form 10-Q for a discussion of recently issued and adopted accounting standards.

### **Critical Accounting Policies and Estimates**

Please refer to Part II. Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operation*, the "Critical Accounting Policies and Estimates" section of our 2021 Form 10-K for a full description of all of our critical accounting estimates. See Note 1. *Basis of Presentation and Summary of Significant Accounting Policies* in the Notes to the Condensed Consolidated Financial Statements included in Item 1 of this Form 10-Q for a discussion of change in accounting estimate. We believe there have been no other new critical accounting policies and estimates, or material changes to our existing critical accounting policies and estimates during the nine months ended September 30, 2022.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

The Company's management, with the participation of its principal executive officer and principal financial officer, evaluated the effectiveness of its disclosure controls and procedures as of September 30, 2022. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms promulgated by the Securities and Exchange Commission (the "SEC"). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation, our management concluded that, as of September 30, 2022, due to the material weaknesses in our internal control over financial reporting previously identified in our 2021 Form 10-K which continues to exist, our disclosure controls and procedures were not effective.

#### **Remediation Plan for Material Weakness in Internal Control over Financial Reporting**

In connection with the audit of our consolidated financial statements as of and for the years ended December 31, 2021 and 2020, we identified material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Please refer to Part II, Item 9A, "Controls and Procedures" of our 2021 Form 10-K for a full description of the material weaknesses in our internal control over financial reporting and remediation plan.

Our remediation of the identified material weaknesses and the strengthening of our internal control environment is ongoing. We continue to focus on the design and implementation of processes and procedures to improve our new and existing controls and remediate our material weaknesses. We are committed to maintaining a strong control environment and believe that these remediation efforts represent continued improvements in our control environment. As we continue to evaluate and take actions to improve our internal control over financial reporting, we may determine it is necessary to take additional action to address control deficiencies or modify certain of the remediation measures. The material weaknesses will not be considered remediated, however, until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these enhanced internal controls are operating effectively. We will continue to monitor and evaluate the effectiveness of our internal control over financial reporting in the areas affected by the material weaknesses. Our management is committed to remediating the material weakness in a timely manner.

Notwithstanding the identified material weaknesses, management believes that the condensed consolidated financial statements included in this Form 10-Q fairly present in all material respects our financial condition, results of operations, and cash flows for the periods presented in accordance with U.S. GAAP.

#### **Changes in Internal Control over Financial Reporting**

There has been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II**  
**Other Information**

**Item 1. Legal Proceedings**

For information that updates the disclosure set forth under Part I. Item 3. Legal Proceedings in our 2021 Form 10-K, refer to Note 7. *Contingencies* to the Condensed Consolidated Financial Statements in this Form 10-Q.

**Item 1A. Risk Factors**

Please refer to Part I. Item 1A. Risk Factors of our 2021 Form 10-K for a discussion of our risk factors. The risks and uncertainties are not limited to those set forth in the 2021 Form 10-K. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that affect us. We believe there have been no new risk factors, or material changes to our existing risk factors, during the nine months ended September 30, 2022.

**Item 2. Recent Sales of Unregistered Securities**

None.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

Item 6. Exhibits

| Exhibit Number | Description   | Incorporated by Reference |           |                     |             | Filed/Furnished Herewith |
|----------------|---|---------------------------|-----------|---------------------|-------------|--------------------------|
|                |   | Form                      | File No.  | Exhibit Filing Date | Exhibit No. |                          |
| 3.1            | <a href="#">Spark Networks SE Amended Articles of Association, dated September 14, 2022.</a>  | 8-K                       | 001-38252 | September 16, 2022  | 3.1         |                          |
| 10.1           | <a href="#">Amended and Restated Amendment No.1 to Financing Agreement, dated as of August 19, 2022, by and among Spark Networks SE, Zoosk, Inc., Spark Networks, Inc. and MGG Investment Group LP</a>  | 8-K                       | 001-38252 | August 24, 2022     | 10.1        |                          |
| 31.1           | <a href="#">Certification of Principal Executive Officer pursuant to rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>  |                           |           |                     |             | X                        |
| 31.2           | <a href="#">Certification of Principal Financial Officer pursuant to rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>  |                           |           |                     |             | X                        |
| 32.1           | <a href="#">Certification of Principal Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**</a>   |                           |           |                     |             | X                        |
| 32.2           | <a href="#">Certification of Principal Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**</a>   |                           |           |                     |             | X                        |
| 101            | <p>The following financial statements from the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, were formatted in Inline Extensible Business Reporting Language (“XBRL”):</p> <ul style="list-style-type: none"> <li>• unaudited condensed consolidated balance sheets;</li> <li>• unaudited condensed consolidated statements of operations and comprehensive loss;</li> <li>• unaudited condensed consolidated statements of shareholders’ equity;</li> <li>• unaudited condensed consolidated statement of cash flows; and</li> <li>• notes to unaudited condensed consolidated financial statements.</li> </ul> <p>The instance document does not appear in the Interactive Data File because its XBRL tags are imbedded within the Inline XBRL document.</p> |                           |           |                     |             | X                        |
| 104            | Cover Page Interactive Data File – the cover page from this Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, is formatted in Inline XBRL and contained in Exhibit 101.   |                           |           |                     |             |                          |

\*\* The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and are not deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall they be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

**SIGNATURES**

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

Spark Networks SE

Date: November 9, 2022

By: /s/ Eric Eichmann  
Eric Eichmann  
Chief Executive Officer  
(Principal Executive Officer)

Date: November 9, 2022

By: /s/ David Clark  
David Clark  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

**Form of Certification**  
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Eric Eichmann, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Spark Networks SE;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2022

By: \_\_\_\_\_

/s/ Eric Eichmann

Eric Eichmann  
Chief Executive Officer

**Form of Certification**  
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, David Clark, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Spark Networks SE;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2022

By: \_\_\_\_\_

/s/ David Clark

David Clark  
**Chief Financial Officer**

**Form of Certification**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Spark Networks SE (the “Company”), does hereby certify, to such officer’s knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2022 of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2022

By: \_\_\_\_\_  
/s/ Eric Eichmann  
Eric Eichmann  
**Chief Executive Officer**



