

Spark Networks(R) Reports Second Quarter Financial Results

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LOS ANGELES, CA -- (Marketwired) -- 08/11/14 -- Spark Networks, Inc. (NYSE MKT: LOV)

- Contribution margin¹ reaches 50%
- Contribution² increases 109% year-over-year
- Average paying subscribers³ decline by 9%

Spark Networks, Inc. (NYSE MKT: LOV), a leader in creating niche-focused brands that build and strengthen the communities they serve, today reported financial results for the second quarter ended June 30, 2014.

Financial Highlights

	<u>Q2 2013</u>	<u>Q2 2014</u>
Revenue	\$17.6 Million	\$15.8 Million
Contribution Margin	21%	50%
Net Loss	\$(3.3) Million	\$(1.1) Million
Net Loss Per Share	\$(0.15)	\$(0.05)

Financial Results

Revenue in the second quarter of 2014 was \$15.8 million, a decrease of 10% compared to the year-ago period. The decrease was primarily driven by a 9% decrease in average paying subscribers, reflecting an 8% and 7% decline in average paying subscribers for the Christian and Jewish Networks segments, respectively.

Direct marketing expenses in the second quarter of 2014 were \$7.9 million, a decrease of 43% compared to the year-ago period. Christian Networks accounted for the majority of the decrease, reflecting the company's strategy to reduce and reallocate direct marketing investments in the segment.

Contribution in the second quarter of 2014 was \$7.8 million, an increase of 109% compared to the year-ago period. Christian Networks was the primary driver behind this improvement, generating positive contribution for the first time in 15 quarters. The positive contribution was driven by improved marketing efficiency and growth in the winback and renewal subscriber bases.

Total cost and expenses in the second quarter of 2014 were \$16.8 million, a decrease of 19% compared to the year ago period. The decrease in expenditures is largely a result of the reduction in Christian Networks direct marketing expense.

Net loss in the second quarter of 2014 was \$(1.1) million, or \$(0.05) per share, compared to a net loss of \$(3.3) million, or \$(0.15) per share, in the year ago period.

Adjusted EBITDA⁴ in the second quarter of 2014 was a loss of \$363,000, an improvement of 84% compared to the year-ago period. Excluding proxy-related fees and costs in the second quarter of 2014, Adjusted EBITDA would have been approximately \$1.0 million.

Total average paying subscribers in the second quarter of 2014 were 275,345, a decrease of 9% compared to the year-ago period. Christian Networks average paying subscribers were 181,062 in the second quarter of 2014, an 8% decrease compared to the year-ago period. The decrease reflects the impact of the reduction and reallocation of direct marketing investments, the effects of certain affiliate-driven email deliverability issues experienced in the first quarter of 2014, and an

increase in failed renewal transactions as a result of credit and debit card turnover associated with a security breach at a major US-based retailer. Jewish Networks average paying subscribers were 78,856, a 7% decrease compared to the year-ago period. The decrease also reflects the aforementioned email deliverability and payment card renewal issues. Other Networks average paying subscribers were 15,427, a 27% decrease compared to the year-ago period.

Balance Sheet, Cash, Debt

As of June 30, 2014, the company had cash and cash equivalents of \$10.1 million, a decrease of 32% from \$14.7 million at December 31, 2013. As of June 30, 2014, the company had no outstanding debt.

SPARK NETWORKS, INC.

SEGMENT RESULTS FROM OPERATIONS⁵

(in thousands except subscriber and ARPU information)

	<u>Q2 2013</u>	<u>Q3 2013</u>	<u>Q4 2013</u>	<u>Q1 2014</u>	<u>Q2 2014</u>	<u>Q2 '14 v. Q2 '13</u>
Net Revenue						
Jewish Networks	\$ 6,460	\$ 6,433	\$ 6,444	\$ 6,124	\$ 5,895	-8.7 %
Christian Networks	10,260	10,088	9,989	9,789	9,199	-10.3 %
Other Networks	775	715	667	610	570	-26.5 %
Offline & Other Businesses	86	125	104	93	93	8.1 %
Total Net Revenue	\$ 17,581	\$ 17,361	\$ 17,204	\$ 16,616	\$ 15,757	-10.4 %
Direct Mktg. Exp.						
Jewish Networks	\$ 776	\$ 822	\$ 991	\$ 1,115	\$ 693	-10.7 %
Christian Networks	12,866	11,659	11,769	10,104	7,073	-45.0 %
Other Networks	152	123	121	142	115	-24.3 %
Offline & Other Businesses	31	30	36	25	28	-9.7 %
Total Direct Mktg. Exp.	\$ 13,825	\$ 12,634	\$ 12,917	\$ 11,386	\$ 7,909	-42.8 %
Contribution						
Jewish Networks	\$ 5,684	\$ 5,611	\$ 5,453	\$ 5,009	\$ 5,202	-8.5 %
Christian Networks	(2,606)	(1,571)	(1,780)	(315)	2,126	N/A
Other Networks	623	592	546	468	455	-27.0 %
Offline & Other Businesses	55	95	68	68	65	9.7 %
Total Contribution	\$ 3,756	\$ 4,727	\$ 4,287	\$ 5,230	\$ 7,848	108.9 %
Average Paying Subs.						
Jewish Networks	84,487	83,732	83,175	80,395	78,856	-6.7 %
Christian Networks	196,598	197,420	192,349	189,251	181,062	-7.9 %
Other Networks	21,183	19,073	17,236	16,396	15,427	-27.2 %
Total Avg. Paying Subs.⁶	302,268	300,225	292,760	286,042	275,345	-8.9 %
ARPU⁷						
Jewish Networks	\$ 25.15	\$ 25.28	\$ 25.34	\$ 24.87	\$ 24.43	-2.9 %
Christian Networks	16.55	16.07	16.14	16.19	15.64	-5.5 %
Other Networks	11.49	12.08	12.44	12.08	11.97	4.2 %

Total ARPU⁷

\$ 18.60 \$ 18.38 \$ 18.54 \$ 18.40 \$ 17.95 -3.5 %

Distribution of New Subscription Purchases⁸

	<u>Q2 2013</u>	<u>Q3 2013</u>	<u>Q4 2013</u>	<u>Q1 2014</u>	<u>Q2 2014</u>
Jewish Networks					
1 month plans	42.2 %	40.1 %	39.9 %	39.5 %	40.4 %
3 month plans	25.0 %	27.3 %	26.2 %	26.7 %	23.6 %
6 month plans	32.8 %	32.6 %	33.9 %	33.8 %	36.0 %
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
Christian Networks					
1 month plans	44.9 %	43.6 %	43.5 %	44.4 %	44.8 %
3 month plans	25.3 %	23.1 %	25.9 %	21.7 %	18.6 %
6 month plans	29.8 %	33.3 %	30.6 %	33.9 %	36.6 %
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
Other Networks					
1 month plans	58.5 %	60.8 %	57.5 %	57.9 %	55.4 %
3 month plans	13.0 %	12.6 %	12.8 %	13.2 %	12.7 %
6 month plans	28.5 %	26.5 %	29.7 %	28.9 %	31.9 %
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

Composition of Average Paying Subscriber Base⁹

	<u>Q2 2013</u>	<u>Q3 2013</u>	<u>Q4 2013</u>	<u>Q1 2014</u>	<u>Q2 2014</u>
Jewish Networks					
First Time Subscribers	24.8 %	25.3 %	24.2 %	23.1 %	22.4 %
Winback Subscribers	31.5 %	30.6 %	29.9 %	29.3 %	29.8 %
Renewal Subscribers	43.7 %	44.1 %	45.9 %	47.6 %	47.8 %
Total	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
Christian Networks					
First Time Subscribers	55.0 %	53.8 %	52.0 %	49.1 %	45.8 %
Winback Subscribers	18.4 %	18.5 %	18.9 %	19.3 %	19.9 %
Renewal Subscribers	26.6 %	27.7 %	29.1 %	31.6 %	34.3 %
Total	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
Other Networks					
First Time Subscribers	34.3 %	33.9 %	31.8 %	32.1 %	32.2 %
Winback Subscribers	22.9 %	24.7 %	24.2 %	23.2 %	23.1 %
Renewal Subscribers	42.8 %	41.4 %	44.0 %	44.7 %	44.7 %
Total	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

Investor Conference Call

The company will discuss its financial results during a live teleconference today at 1:30 p.m. Pacific time.

Toll-Free (United States): 1-877-407-0789

International: 1-201-689-8562

In addition, the company will host a webcast of the call which will be accessible in the Investor Relations section of the company's website at www.spark.net or by clicking <http://investor.spark.net>.

A replay will begin approximately three hours after completion of the call and run until August 25, 2014.

Replay

Toll-Free (United States): 1-877-870-5176

International: 1-858-384-5517

Passcode: 13586085

Safe Harbor Statement:

This press release contains forward-looking statements. Any statements in this news release that are not statements of historical fact may be considered to be forward-looking statements. Written words, such as "may," "will," "expect," "believe," "anticipate," "estimate," "intends," "goal," "objective," "seek," "attempt," or variations of these or similar words, identify forward-looking statements. By their nature, forward-looking statements and forecasts involve risks and uncertainties because they relate to events and depend on circumstances that will occur in the near future. There are a number of factors that could cause actual results and developments to differ materially, including, but not limited to our ability to: attract members; convert members into paying subscribers and retain our paying subscribers; develop or acquire new product offerings and successfully implement and expand those offerings; keep pace with rapid technological changes; maintain the strength of our existing brands and maintain and enhance those brands; continue to depend upon the telecommunications infrastructure and our networking hardware and software infrastructure; identify and consummate strategic acquisitions and integrate acquired companies or assets; obtain financing on acceptable terms; and successfully implement both cost cutting initiatives and our current long-term growth strategy. For a discussion of these and further risks and uncertainties, please see our filings with the Securities and Exchange Commission. We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information that we file at the SEC's public reference room at 100 F Street, N.E., Washington, D.C., 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our public filings with the SEC also are available from commercial document retrieval services and at the Web site maintained by the SEC at <http://www.sec.gov>.

About Spark Networks, Inc.:

The Spark Networks portfolio of consumer Web sites includes, among others, JDate[®].com (www.jdate.com), ChristianMingle[®].com (www.christianmingle.com), Spark[®].com (www.spark.com), BlackSingles.com[®] (www.blacksingles.com), and SilverSingles[®].com (www.silversingles.com).

¹ "Contribution Margin" is defined as Contribution divided by revenue, net of credits and credit card chargebacks.

² "Contribution" is defined as revenue, net of credits and credit card chargebacks, less direct marketing.

³ "Average paying subscribers" are defined as individuals who have paid a monthly fee for access to communication and Web site features beyond those provided to our members. Average paying subscribers for each month are calculated as the sum of the paying subscribers at the beginning and end of the month, divided by two. Average paying subscribers for periods longer than one month are calculated as the sum of the average paying subscribers for each month, divided by the number of months in such period.

⁴ The company reports Adjusted EBITDA as a supplemental measure to generally accepted accounting principles in the United States ("GAAP"). This measure is one of the primary metrics by which we evaluate the performance of our businesses, 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 on-going operations and excludes the impact of: (i) non-cash items such as stock-based compensation, asset impairments, non-cash currency translation adjustments related to an inter-company loan and (ii) one-time items that have not occurred in the past two years and are not expected to recur in the next two years. Adjusted EBITDA should not be construed as a substitute for net income (loss) (as determined in accordance with GAAP) for the purpose of analyzing our operating performance or financial position, as Adjusted EBITDA is not defined by GAAP.

"Adjusted EBITDA" is defined as earnings before interest, taxes, depreciation, amortization, stock-based compensation, impairment of long-lived assets, non-cash currency translation adjustments for an inter-company loan and the income (loss) recognized from non-cash assets received in connection with a legal judgment.

⁵ In accordance with Segment Reporting guidance, the company's financial reporting includes detailed data on four separate operating segments. The Jewish Networks segment consists of the company's JDate.com, JDate.co.il, JDate.fr, JDate.co.uk and Cupid.co.il Web sites and their respective co-branded Web sites. The Christian Networks segment consists of the company's ChristianMingle.com, ChristianMingle.co.uk, ChristianMingle.com.au, Believe.com, ChristianCards.net, ChristianDating.com, DailyBibleVerse.com and Faith.com Web sites. The Other Networks segment consists of Spark.com and related other general market Web sites as well as other properties which are primarily composed of sites targeted towards various religious, ethnic, geographic and special interest groups. The Offline & Other Businesses segment consists of revenue generated from offline activities and HurryDate events and subscriptions.

⁶ Total Average Paying Subscribers excludes results from the company's HurryDate business due to its relative size.

⁷ ARPU is defined as average revenue per user per month. Total ARPU excludes results from the company's HurryDate business due to its relative size.

⁸ One month plans may also include a small amount of two month plans. Three month plans may include a small amount of four month plans. Six month plans may include a small amount of twelve month plans.

⁹ Represents the type of subscriber comprising the average paying subscribers in that period. First Time Subscribers are defined as those subscribers that have never purchased a subscription from the company for that reporting segment. Winback Subscribers are defined as those individuals who have purchased a subscription from the company for that reporting segment, allowed their subscription to lapse, and subsequently purchased a subscription from the company for that reporting segment. Renewal Subscribers are defined as those subscribers that have auto-renewed a subscription from the company for that reporting segment.

SPARK NETWORKS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	<i>December 31,</i>	<i>June 30,</i>
	<i>2013</i>	<i>2014</i>
<i>Assets</i>		(unaudited)
Current assets:		
Cash and cash equivalents	\$ 14,723	\$ 10,083
Restricted cash	1,296	1,222
Accounts receivable	1,569	1,400
Deferred tax asset - current	10	15
Prepaid expenses and other	1,787	695

Total current assets	19,385	13,415
Property and equipment, net	3,901	3,982
Goodwill	9,305	9,370
Intangible assets, net	2,269	2,492
Deferred tax asset - non-current	186	47
Deposits and other assets	208	270
Total assets	<u>\$ 35,254</u>	<u>\$ 29,576</u>

Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable	\$ 1,516	\$ 1,548
Accrued liabilities	5,761	5,154
Deferred revenue	8,830	8,331
Deferred tax liability - current portion	<u>526</u>	<u>526</u>
Total current liabilities	16,633	15,559
Deferred tax liability - non-current	1,781	1,821
Other liabilities	<u>1,717</u>	<u>1,713</u>
Total liabilities	20,131	19,093

Commitments and contingencies

Stockholders' equity:

Authorized capital stock consists of 100,000,000 shares of Common Stock, \$0.001 par value; issued and outstanding: 23,915,875 and 24,001,937 shares at June 30, 2014 and December 31, 2013, respectively:

Additional paid-in-capital	24	26
	70,747	70,121
Accumulated other comprehensive income	776	787
Accumulated deficit	<u>(56,424)</u>	<u>(60,451)</u>
Total stockholders' equity	<u>15,123</u>	<u>10,483</u>
Total liabilities and stockholders' equity	<u>\$ 35,254</u>	<u>\$ 29,576</u>

SPARK NETWORKS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited, in thousands, except per share data)

	<i>Three Months Ended</i>		<i>Six Months Ended June</i>	
	<i>June 30,</i>		<i>30,</i>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Revenue	\$ 17,581	\$ 15,757	\$ 34,844	\$ 32,373
Cost and expenses:				
Cost of revenue (exclusive of depreciation shown separately below)	14,770	8,866	28,427	21,230
Sales and marketing	1,287	1,369	2,549	2,931
Customer service	688	763	1,391	1,551
Technical operations	267	300	599	641

Development	793	900	1,584	1,759
General and administrative	2,274	4,069	5,208	7,026
Depreciation	472	523	925	1,040
Amortization of intangible assets	-	10	-	20
Impairment of long-lived assets	265	-	265	-
Total cost and expenses	20,816	16,800	40,948	36,198
Operating loss	(3,235)	(1,043)	(6,104)	(3,825)
Interest (income) expense and other, net	(43)	(48)	(96)	(17)
Loss before income taxes	(3,192)	(995)	(6,008)	(3,808)
Provision for income taxes	84	140	208	219
Net loss	<u>\$ (3,276)</u>	<u>\$ (1,135)</u>	<u>\$ (6,216)</u>	<u>\$ (4,027)</u>
Net loss per share - basic and diluted	<u>\$ (0.15)</u>	<u>\$ (0.05)</u>	<u>\$ (0.29)</u>	<u>\$ (0.17)</u>
Weighted average shares outstanding - basic and diluted	<u>22,485</u>	<u>23,851</u>	<u>21,745</u>	<u>23,886</u>

Stock-based compensation:

(in thousands)

	<i>Three Months Ended June 30,</i>		<i>Six Months Ended June 30,</i>	
	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>
Sales and marketing	\$ 37	\$ 38	\$ 71	\$ 76
Technical operations	1	-	2	-
Development	3	-	7	-
General and administrative	153	112	302	252

Reconciliation of Net Loss to Adjusted EBITDA:

(in thousands)

	<i>Three Months Ended June</i>		<i>Six Months Ended June</i>	
	<i>30,</i>		<i>30,</i>	
	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>
Net loss	\$ (3,276)	\$ (1,135)	\$ (6,216)	\$ (4,027)
Interest	19	12	34	24
Taxes	84	140	208	219
Depreciation	472	523	925	1,040
Amortization	-	10	-	20
EBITDA	(2,701)	(450)	(5,049)	(2,724)
Stock-based compensation	194	150	382	328
Impairment of long-lived assets	265	-	265	-
Non-cash currency translation adjustments	(37)	(63)	(116)	(43)
Adjusted EBITDA	<u>\$ (2,279)</u>	<u>\$ (363)</u>	<u>\$ (4,518)</u>	<u>\$ (2,439)</u>

For More Information

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310-829-5400

Source: Spark Networks Inc.