SPARK NETWORKS PLC
Form POS AM
June 08, 2006

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As Filed With The United States Securities and Exchange Commission on June 8, 2006
Registration No. 333-123228

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Post-Effective Amendment No. 2 to
Form S-1
REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

Spark Networks plc
(Exact name of Registrant as specified in its charter)

England and Wales	**7389**	**98-0200628**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(IRS Employer Identification Number)*

8383 Wilshire Boulevard, Suite 800
Beverly Hills, CA 90211
(323) 836-3000
(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

David E. Siminoff
President and Chief Executive Officer
Spark Networks plc
8383 Wilshire Boulevard, Suite 800
Beverly Hills, California 90211
Telephone: (323) 836-3000
Fax: (323) 836-3333
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:
Thomas J. Poletti, Esq.
Katherine J. Blair, Esq.
Anh Q. Tran, Esq.
Kirkpatrick & Lockhart Nicholson Graham LLP
10100 Santa Monica Boulevard, 7th Floor
Los Angeles, California 90067
Telephone: (310) 552-5000
Fax: (310) 552-5001

Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement is declared effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check following box: þ

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this form is a post effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, please check the following box and list the Securities Act registration statement number of the earliest effective registration statement for the same offering: o

If delivery of the prospectus is expected to be made pursuant to Rule 434 under the Securities Act of 1933, check the following box: o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Amount to be Registered(1)**	**Maximum Offering Price Per Share(2)**	**Proposed Maximum Aggregate Offering Price**	**Amount of Registration Fee**
Ordinary Shares, par value £0.01 per share(3)	30,238,996	$ 7.12	$215,301,652	$25,341
Ordinary Shares, par value £0.01 per share(3)(4)	3,025,000	$ 7.12	$ 21,538,000	$ 2,535
Total Registration Fee				$27,876(5)

(1) In accordance with Rule 416(a), the Registrant is also registering hereunder an indeterminate number of additional shares of common stock that shall be issuable pursuant to Rule 416 to prevent dilution resulting from stock splits, stock dividends or similar transactions.

(2) Estimated pursuant to Rule 457(c) of the

Securities Act of 1933, as amended, solely for the purpose of computing the amount of the registration fee based on the average of the high and low sales prices of the ordinary shares traded in the form of Global Depositary Receipts, or GDRs, as reported by the Frankfurt Stock Exchange in Germany on September 15, 2005. For purposes of this calculation the sales price of the GDRs is converted into U.S. dollars at an exchange rate of 0.81413 per $1.00, which is based on the average bid and ask currency exchange price as reported by OANDA on September 15, 2005.

(3) Consists of ordinary shares that are to be offered and sold in the form of American Depositary Shares, or

ADSs, by the selling shareholders identified in this prospectus and any prospectus supplement. The ADSs, each representing one ordinary share, evidenced by American Depositary Receipts, or ADRs, upon deposit of the ordinary shares registered hereby, are being registered under a separate registration statement on Form F-6.

(4) Represents shares of the Registrant s ordinary shares being registered for resale that have been or may be acquired upon the exercise of warrants or options issued to the selling shareholders named in this prospectus and any prospectus supplement.

(5) Previously paid. Pursuant to Rule 457(p), the registration fee was partially offset by a previously paid

filing fee of $12,670 paid in connection with the filing on August 4, 2004 by MatchNet, Inc. of a registration statement on Form S-1 (file number 333-117940). In addition, $15,210 was also previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. The selling shareholders may not sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion dated June 8, 2006

33,263,996 American Depositary Shares

SPARK NETWORKS PLC

Representing 33,263,996 Ordinary Shares

The selling shareholders identified in this prospectus and any prospectus supplement are offering 33,263,996 ordinary shares in the form of American Depositary Shares, or ADSs. Each ADS represents the right to receive one ordinary share. We will not receive any proceeds from the sale of our shares by the selling shareholders, except for funds received from the exercise of warrants and options held by selling shareholders, if and when exercised.

No established public market for our ordinary shares or ADSs currently exists in the United States of America.

Our ordinary shares in the form of Global Depositary Shares, or GDSs, currently trade on the Frankfurt Stock Exchange under the symbol MHJG. The last reported sales price of the GDSs on the Frankfurt Stock Exchange on June 7, 2006 was 4.51 per GDS, or $5.77 per GDS.

Our ordinary shares in the form of ADSs currently trade on the American Stock Exchange under the symbol LOV. The last reported sales price of the ADSs on the American Stock Exchange on June 7, 2006 was $5.95 per ADS.

The current offering price as of the date of this prospectus is between approximately $4.33 and $5.77, which is approximately 75% and 100% of the last reported sales price of the GDSs on the Frankfurt Stock Exchange as of June 7, 2006. Selling shareholders will sell the ADSs at this price until our ADSs are listed on the American Stock Exchange and there is an established market for these shares, the selling shareholders may sell the ADSs from time to time at market price prevailing on the American Stock Exchange at the time of offer and sale, or at prices related to such prevailing market prices or in negotiated transactions or a combination of such methods of sale directly or through brokers.

This investment involves risk. See Risk Factors beginning on page 8.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of anyone s investment in these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

NOTICE TO RESIDENTS OF THE UNITED KINGDOM AND OTHER MEMBER STATES OF THE EUROPEAN UNION: The shares and ADSs referred to in this document may only be sold or offered to, and this prospectus and any other invitation or inducement to buy or participate in the offer or sale of shares or ADSs may only be communicated to persons outside the United Kingdom and other member states of the European Union (Relevant Persons). The shares and ADSs to which this prospectus relates are available only to Relevant Persons and this prospectus must not be acted on or relied on by persons that are not Relevant Persons. Any investment or investment activity to which this prospectus relates is available only to Relevant Persons and may be engaged in only with Relevant Persons. Any person communicating any information relating to this prospectus or the shares and ADSs in the UK or another member state of the European Union should comply with all applicable provisions of the Financial Services and Markets Act 2000 in the UK (FSMA) and/or other applicable legislation of the relevant member state of the European Union (including the applicable provisions of the Prospectus Directive (2003/71/EC)) and any regulations made thereunder in so doing. Persons in the UK or another member state of the European Union who are in any doubt as to the action

they should take are recommended to seek their own personal financial advice from their stockbroker, bank manager, accountant or other financial adviser who is authorized under the FSMA or the relevant competent authority or national regulator of that member state.

The date of this prospectus is _____, 2006

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You should rely only on information contained in this prospectus. We have not authorized any other person to provide you with different information. This prospectus is not an offer to sell, nor is it seeking an offer to buy, these securities in any state where the offer or sale is not permitted. The information in this prospectus is complete and accurate as of the date on the front cover, but the information may have changed since that date.

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PROSPECTUS SUMMARY

This summary highlights information continued elsewhere in this prospectus and does not contain all the information you should consider in your investment decision. You should read this summary, which includes material information, with the more detailed information set out in this prospectus and the financial statements and related notes. You should carefully consider, among other things, the matters discussed in Risk Factors. We were incorporated in September 1998 under the laws of England and Wales as a public limited company. Throughout this prospectus, we refer to Spark Networks plc (known as MatchNet plc until January 10, 2005) and our subsidiaries as we, us, our, ou company, Spark Networks and MatchNet unless otherwise indicated. Spark Networks, MatchNet, JDate, AmericanSingles and MingleMatch are some of our trademarks. Trade names, trademarks and service marks of other companies appearing in this prospectus are the property of the respective holders.

Our Business

We are a leading provider of online personals services in the United States and internationally. Our web sites enable adults to meet online and participate in a community, become friends, date, form a long-term relationship or marry. We provide this opportunity through the many features on our web sites, such as detailed profiles, onsite email centers, real-time chat rooms and instant messaging services. In 2005, Spark Networks averaged approximately 3.3 million monthly unique visitors to our web sites in the United States, according to comScore Media Metrix, which ranked us as the third largest provider of online personals services in the United States. comScore Media Metrix defines total unique visitors as the estimated number of different individuals that visited any content of a web site, a category, a channel or an application during the reporting period. The number of total unique visitors to our web sites as measured by comScore Media Metrix does not correspond to the number of members we have in any given period. Currently, our key web sites are JDate.com and AmericanSingles.com. We operate several international web sites and maintain operations in both the United States and Israel. Information regarding the geographical source of our revenues can be found in Note 12 to our Consolidated Financial Statements included in this prospectus. Membership on our sites is free and allows a registered user to post a personal profile and to access our searchable database of member profiles. The ability to initiate most communication with other members requires the payment of a monthly subscription fee, which represents our primary source of revenue. We also offer discounted subscription rates for members who subscribe for longer periods, ranging from three to twelve months. Following their initial terms, subscriptions on our web sites renew automatically for subsequent one-month periods until paying subscribers terminate them.

We believe that online personals fulfill significant needs for single adults who are looking to meet a companion or date. Traditional methods such as printed personals advertisements, offline dating services and public gathering places often do not meet the needs of time-constrained single people. Printed personals advertisements offer individuals limited personal information and interaction before meeting. Offline dating services are time-consuming, expensive and offer a smaller number of potential partners. Public gathering places such as restaurants, bars and social venues provide a limited ability to learn about others prior to an in-person meeting. In contrast, online personals services facilitate interaction between singles by allowing them to screen and communicate with a large number of potential companions. With features such as detailed personal profiles, email and instant messaging, this medium allows users to communicate with other singles at their convenience and affords them the ability to meet multiple people in a safe and secure online setting.

For the three months ended March 31, 2006, we had approximately 244,300 average paying subscribers, representing an increase of 9.7% from the same period in 2005. Our JDate and AmericanSingles segments had approximately 79,500 and 98,800 average paying subscribers for the three months ended March 31, 2006, an increase of 12.9% and a decrease of 18.8%, respectively, compared to the same period in 2005.

We intend to grow our business in the following ways:

- Increasing our base of members in the United States and internationally through consistent and targeted marketing efforts. We define a member as an individual who has posted a personal profile during the immediately preceding 12 months or an individual who has previously posted a personal profile and has subsequently logged on to one of our web sites at least once in the preceding 12 months. Members may or may not be paying subscribers which we define as individuals who have paid a monthly fee for access to

communication and web site features beyond those provided to our members. Accordingly, the number of members we have at any given time may not directly affect our revenue.

Increasing the number of our members who become paying subscribers by offering improved technology and communications features and by utilizing our strong customer service focus.

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Extending into new vertical affinity markets that we believe will be receptive to paid online personals and are large enough to enable us to attain enough paying subscribers sufficient to support an online community. We view vertical affinity markets as identifiable groups of people who share common interests, backgrounds and traits and the desire to meet companions or dates with similar interests, backgrounds or traits.

Office Location

Our principal executive offices are located at 8383 Wilshire Boulevard, Suite 800, Beverly Hills, California 90211. Our telephone number at that location is (323) 836-3000. Our registered office is located at 24/26 Arcadia Avenue, London, N3 2JU, England. Our corporate web site address is www.spark.net. This is a textual reference only. We do not incorporate the information on our web site into this prospectus, and you should not consider any information on, or that can be accessed through, our web site as part of this prospectus.

Our Securities

Our ordinary shares currently trade on the Frankfurt Stock Exchange in the form of Global Depositary Shares, or GDSs, and on the American Stock Exchange in the form of American Depositary Shares, or ADSs, each of which represents the right to receive one ordinary share. The selling shareholders identified in this prospectus and any prospectus supplement are offering 33,263,996 ordinary shares in the form of ADSs, each of which represents the right to receive one ordinary share. ADSs may be issued to persons located in the United States and the selling shareholders may sell their ordinary shares in the form of ADSs after this registration statement or any post-effective amendment to this registration statement, if applicable, is declared effective by the Securities and Exchange Commission, except during any time with respect to which we inform those shareholders that this registration statement may not be relied upon. Selling shareholders that hold their ordinary shares in the form of GDSs may offer and sell their shares in the United States by surrendering those GDSs to our depositary bank, The Bank of New York, and requesting the depositary bank to deliver ADSs to the order of the purchaser. Once GDSs have been surrendered for ordinary shares, the shares may not be re-deposited for GDSs because the GDS facility has been closed to any deposits of shares for GDSs, and if and when all GDSs have been surrendered, we intend to terminate our GDS deposit agreement such that our ordinary shares will only be publicly traded in the form of ADSs.

We are registering the ordinary shares in the form of ADSs, and not directly as ordinary shares. An acquisition or transfer of an ordinary share in the United States will generally trigger a charge to United Kingdom stamp duty, and such stamp duty is generally not triggered when the sale or transfer of the beneficial interest in the ordinary shares is effected by a transfer of ADSs. See Taxation on page 94 for additional information regarding taxation of our ordinary shares and ADSs.

The Offering

ADSs offered by selling shareholders	33,263,996 ADSs(1)
Total ordinary shares outstanding after the offering, including ordinary shares underlying ADSs and GDSs	30,296,396 Ordinary Shares(2)
Use of Proceeds	We will not receive any of the net proceeds from the sale of shares by the selling shareholders. See Use of Proceeds.
American Stock Exchange symbol	LOV

(1) Consists of 30,238,996 ordinary shares, 2,595,000 ordinary shares underlying

options and 430,000 ordinary shares underlying warrants. The ordinary shares are to be offered and sold in the form of American Depositary Shares, or ADSs. The ADSs, each representing one ordinary share, evidenced by American Depositary Receipts, or ADRs, upon deposit of the ordinary shares registered hereby, have been registered under a separate registration statement on Form F-6.

(2) The total number of ordinary shares to be outstanding immediately after this offering is based on 30,296,396 ordinary shares outstanding as of March 31, 2006. This information excludes:

4,722,145 ordinary shares issuable upon the exercise of outstanding options as of March 31, 2006, with exercise prices ranging from $0.87 to $9.53 per shar e and a weighted average exercise price of $5.76 per share;

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430,000 ordinary shares issuable upon the exercise of warrants outstanding as of March 31, 2006, with an exercise price an exercise price of $2.51 per share; and

14,303,705 ordinary shares available for issuance under our share option schemes.

Summary Consolidated Financial Data

The following summary consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements, related notes, and other financial information included herein.

	Three Months Ended March 31,		Years ended December 31,(1)				
	2006	2005	2005(6)	2004(6)	2003(6)	2002	2001
	(unaudited)		(in thousands, except per share amounts)				
Consolidated Statements of Operations Data:							
Net revenues	$ 16,805	$ 16,526	$ 65,511	$ 65,052	$ 36,941	$ 16,352	$ 10,434
Direct marketing expenses	5,657	5,228	24,411	31,240	18,395	5,396	2,044
Contribution margin	11,148	11,298	41,100	33,812	18,546	10,956	8,390
Operating expenses:*							
Indirect marketing	366	265	1,208	2,607	986	403	540
Customer service	908	577	2,827	3,379	2,536	1,207	641
Technical operations	2,230	1,402	7,546	7,184	4,481	1,587	1,772
Product development	845	830	4,118	2,013	959	603	359
General and administrative	5,632	6,079	25,074	29,253(2)	18,537(2)	7,996	5,496
Amortization of intangible assets other than goodwill	239	110	1,085	860	555	524	2,137
Impairment of long-lived assets			105	208	1,532		3,997
Total operating expenses	10,220	9,263	41,963	45,504	29,586	12,320	14,942
Operating Income (loss)	928	2,035	(863)	(11,692)	(11,040)	(1,364)	(6,552)
Interest (income) and other expenses, net	39	(24)	711	(66)	(188)	(840)	1,627
Income (Loss) before income taxes	889	2,059	(1,574)	(11,626)	(10,852)	(524)	(8,179)
Provision for income taxes	179	72	(136)	1			

Net Income (loss)	710	1,987	(1,438)	(11,627)	(10,852)	(524)	(8,179)
Net Income (loss) per share basic (3)	0.02	0.08	(0.06)	(0.51)	(0.57)	(0.03)	(0.47)
Net Income (loss) per share diluted (3)	0.02	0.07	NA	NA	NA	NA	NA
Weighted average shares outstanding basic (3)	30,266	25,177	26,105	22,667	18,970	18,460	17,460
Weighted average shares outstanding diluted (3)	31,258	29,236	NA	NA	NA	NA	NA
Other Financial Data:							
Depreciation	817	848	3,624	3,065	1,441	874	544
Additional Information:							
Average paying subscribers(4)	244,300	222,600	220,000	226,100	125,800	58,700	

* Operating expenses include share-based compensation as follows:

	March 31,		December 31,				
	2006	2005	2005	2004(6)	2003(6)	2002	2001
	(unaudited)						
Indirect marketing	13		24	156	79		
Customer service	23		44				
Technical operations	174		338	22	140		
Product development	118		248				
General and administrative	1,043	87	2,063	1,526	1,652		

	March 31, 2006 (unaudited)	2005	December 31, 2004	2003	2002	2001
Consolidated Balance Sheet Data:						
Cash, cash equivalents and marketable securities	15,833	17,292	7,423	5,815	7,755	7,569
Total assets	47,176	48,620	27,359	16,969	17,461	16,352

Deferred revenue	5,676	4,991	3,933	3,232	1,535	993
Capital lease obligations and notes payable	5,728	10,830	1,873	487		
Total liabilities	19,801	23,437	16,872	11,659	3,998	3,238
Shares subject to rescission(5)	6,089	6,089	3,819			
Accumulated deficit	(44,363)	(45,073)	(43,635)	(32,008)	(21,156)	(20,632)
Total shareholders equity	21,286	19,094	6,668	5,310	13,463	13,114

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(1) Refer to Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of certain asset and business acquisitions.

(2) In 2004, general and administrative expenses included an expense of approximately $2.4 million related to an employee severance, $2.1 million related to the United States initial public offering of MatchNet, Inc. that was planned for mid-2004, but which was withdrawn shortly after the related registration statement was filed in the third quarter of 2004, as well as one legal settlement resulting in the recognition of $900,000 in expenses in the third quarter and

two legal settlements resulting in the recognition of $2.1 million in expenses in the fourth quarter of 2004. In 2003, general and administrative expenses included a charge of $1.7 million primarily related to a settlement with Comdisco.

(3) For information regarding the computation of per share amounts, refer to note 1 of our consolidated financial statements.

(4) 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. Additionally, refer to Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of business metrics we use to evaluate our business. We did not track data for the year ended December 31, 2001 sufficient to accurately set forth the number of average paying subscribers for the respective periods.

(5) Under our 2000 Executive Share Option Scheme (2000 Option Scheme), we granted options to purchase ordinary shares to certain of our employees, directors and consultants. The issuances of securities upon exercise of options granted under our 2000 Option Scheme may not have been exempt from registration and qualification

under federal and California state securities laws, and as a result, we may have potential liability to those employees, directors and consultants to whom we issued securities upon the exercise of these options. In order to address that issue, we may elect to make a rescission offer to those persons who exercised all, or a portion, of those options and continue to hold the shares issued upon exercise, to give them the opportunity to rescind the issuance of those shares. However, it is the Securities and Exchange Commission s position that a rescission offer will not bar or extinguish any liability under the Securities Act of 1933 with respect to these options and shares, nor will a rescission offer extinguish a holder s right to rescind the issuance of

securities that were not registered or exempt from the registration requirements under the Securities Act of 1933. As of March 31, 2006, assuming every eligible person that continues to hold the securities issued upon exercise of options granted under the 2000 Option Scheme were to accept a rescission offer, we estimate the total cost to us to complete the rescission would be approximately $6.1 million including statutory interest at 7% per annum, accrued since the date of exercise of the options. The rescission acquisition price is calculated as equal to the original exercise price paid by the optionee to our company upon exercise of their option.

(6) For the purposes of this and all future filings, prior period classification of

share-based compensation was reclassified to conform to current period classification.

Presentation of Financial Information

We report our financial statements in U.S. dollars and prepare our financial statements in accordance with generally accepted accounting principles in the United States. In this prospectus, except where otherwise indicated, references to $ or U.S. dollars are to the lawful currency of the United States, references to or euro are to the single currency o European Union, and references to £ or pound sterling are to the currency of the United Kingdom. Unless otherwise noted, the exercise prices of options and warrants as outstanding on December 31, 2005 noted in this prospectus are presented on an as converted basis into U.S. dollars at an exchange rate of 0.84427 per $1.00, which is based on the average bid and ask exchange price as reported by OANDA for the day December 31, 2005. The exercise prices of options and warrants as outstanding on March 31, 2006 utilize the exchange rate as of such date, which was 0.82807 per $1.00.

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RISK FACTORS

You should carefully consider the risks described below together with all of the other information included in this prospectus before making an investment decision. The risks described below are the material risks that we are currently aware of that are facing our company. In addition, other sections of this prospectus may include additional factors that could adversely impact our business and operating results. If any of the following risks actually occurs, our business, financial condition or results of operations could be materially adversely affected. In that case, the trading price of our ordinary shares, in the form of ADSs, would decline and you may lose all or part of your investment.

Risks Related To Our Business

We have significant operating losses, and we may incur additional losses in the future.

We have historically generated significant operating losses. As of March 31, 2006, we had an accumulated deficit of approximately $44.4 million. Although we had net income of $710,000 for the three months ended March 31, 2006, we had a net loss of approximately $1.4 million for the year ended December 31, 2005 and a net loss of $11.6 million for the year ended December 31, 2004. We expect that our operating expenses will continue to increase during the next several years as a result of the promotion of our services, the hiring of additional key personnel, the expansion of our operations, including the launch of new web sites, and entering into acquisitions, strategic alliances and joint ventures. If our revenues do not grow at a substantially faster rate than these expected increases in our expenses or if our operating expenses are higher than we anticipate, we may not be profitable and we may incur additional losses, which could be significant.

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

We derive nearly all of our net revenues from online subscription fees for our services, which is an early-stage business model for us that has undergone, and continues to experience, rapid and dramatic changes. As a result, we have very little operating history for you to evaluate in assessing our future prospects. You must consider our business and prospects in light of the risks and difficulties we will encounter as an early-stage company in a new and rapidly evolving market. Our performance will depend on the continued acceptance and evolution of online personal services and other factors addressed herein. We may not be able to effectively assess or address the evolving risks and difficulties present in the market, which could threaten our capacity to continue operations successfully in the future.

If our efforts to attract a large number of members, convert members into paying subscribers and retain our paying subscribers are not successful, our revenues and operating results would suffer.

Our future growth depends on our ability to attract a large number of members, convert members into paying subscribers and retain our paying subscribers. This in turn depends on our ability to deliver a high-quality online personals experience to these members and paying subscribers. As a result, we must continue to invest significant resources in order to enhance our existing products and services and introduce new high-quality products and services that people will use. If we are unable to predict user preferences or industry changes, or if we are unable to modify our products and services on a timely basis, we may lose existing members and paying subscribers and may fail to attract new members and paying subscribers. Our revenue and expenses would also be adversely affected if our innovations are not responsive to the needs of our members and paying subscribers or are not brought to market in an effective or timely manner.

Our subscriber acquisition costs vary depending upon prevailing market conditions and may increase significantly in the future.

Costs for us to acquire paying subscribers are dependent, in part, upon our ability to purchase advertising at a reasonable cost. Our advertising costs vary over time, depending upon a number of factors, many of which are beyond our control. Historically, we have used online advertising as the primary means of marketing our services.

In general, the costs of online advertising have recently increased substantially, and we expect those costs to continue to increase as long as the demand for online advertising remains robust. If we are not able to reduce our other operating costs, increase our paying subscriber base or increase revenue per paying subscriber to offset these anticipated increases, our profitability will be adversely affected.

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Competition presents an ongoing threat to the performance of our business.

We expect competition in the online personals business to continue to increase because there are no substantial barriers to entry. We believe that our ability to compete depends upon many factors both within and beyond our control, including the following:

- the size and diversity of our member and paying subscriber bases;
- the timing and market acceptance of our products and services, including the developments and enhancements to those products and services relative to those offered by our competitors;
- customer service and support efforts;
- selling and marketing efforts; and
- our brand strength in the marketplace relative to our competitors.

We compete with traditional personals services, as well as newspapers, magazines and other traditional media companies that provide personals services. We compete with a number of large and small companies, including Internet portals and specialty-focused media companies that provide online and offline products and services to the markets we serve. Our principal online personals services competitors include Yahoo! Personals, Match.com, a wholly-owned subsidiary of InterActiveCorp, and eHarmony, all of which operate primarily in North America. In addition, we face competition from social networking web sites such as MySpace and Friendster. Many of our current and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources and larger customer bases than we do. These factors may allow our competitors to respond more quickly than we can to new or emerging technologies and changes in customer requirements. These competitors may engage in more extensive research and development efforts, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies which may allow them to build larger member and paying subscriber bases than we have. Our competitors may develop products or services that are equal or superior to our products and services or that achieve greater market acceptance than our products and services. These activities could attract members and paying subscribers away from our web sites and reduce our market share.

In addition, current and potential competitors are making, and are expected to continue to make, strategic acquisitions or establishing cooperative and, in some cases, exclusive relationships with significant companies or competitors to expand their businesses or to offer more comprehensive products and services. To the extent these competitors or potential competitors establish exclusive relationships with major portals, search engines and Internet service providers, or ISPs, our ability to reach potential members through online advertising may be restricted. Any of these competitors could cause us difficulty in attracting and retaining members and converting members into paying subscribers and could jeopardize our existing affiliate program and relationships with portals, search engines, ISPs and other web properties.

Our efforts to capitalize upon opportunities to expand into new vertical affinity markets may fail and could result in a loss of capital and other valuable resources.

One of our strategies is to expand into new vertical affinity markets to increase our revenue base. We view vertical affinity markets as identifiable groups of people who share common interests and the desire to meet companions or dates with similar interests, backgrounds or traits. Our planned expansion into such vertical affinity markets will occupy our management s time and attention and will require us to invest significant capital resources. The results of our expansion efforts into new vertical affinity markets are unpredictable, and there is no guarantee that our efforts will have a positive effect on our revenue base. We face many risks associated with our planned expansion into new vertical affinity markets, including but not limited to the following:

- competition from pre-existing competitors with significantly stronger brand recognition in the markets we enter;
- our improper evaluations of the potential of such markets;

diversion of capital and other valuable resources away from our core business and other opportunities that are potentially more profitable; and

weakening our current brands by over expansion into too many new markets.

If we fail to keep pace with rapid technological change, our competitive position will suffer.

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We operate in a market characterized by rapidly changing technologies, evolving industry standards, frequent new product and service announcements, enhancements and changing customer demands. Accordingly, our performance will depend on our ability to adapt to rapidly changing technologies and industry standards, and our ability to continually improve the speed, performance, features, ease of use and reliability of our services in response to both evolving demands of the marketplace and competitive service and product offerings. There have been occasions when we have not been as responsive as many of our competitors in adapting our services to changing industry standards and the needs of our members and paying subscribers. Our industry has been subject to constant innovation and competition. Historically, new features may be introduced by one competitor, and if they are perceived as attractive to users, they are often copied later by others. Over the last few years, such new feature introductions in the industry have included instant messaging, message boards, ecards, personality profiles, and mobile content delivery. Introducing new technologies into our systems involves numerous technical challenges, substantial amounts of capital and personnel resources and often takes many months to complete. We intend to continue to devote efforts and funds toward the development of additional technologies and services. For example, in 2004 and 2005 we introduced a number of new web sites and features, and we anticipate the introduction of additional web sites and features in 2006 and 2007. We may not be able to effectively integrate new technologies into our web sites on a timely basis or at all, which may degrade the responsiveness and speed of our web sites. Such technologies, even if integrated, may not function as expected.

Our business depends on establishing and maintaining strong brands, and if we are not able to maintain and enhance our brands, we may be unable to expand or maintain our member and paying subscriber bases.

We believe that establishing and maintaining our brands is critical to our efforts to attract and expand our member and paying subscriber bases. We believe that the importance of brand recognition will continue to increase, given the growing number of Internet sites and the low barriers to entry for companies offering online personals services. To attract and retain members and paying subscribers, and to promote and maintain our brands in response to competitive pressures, we intend to substantially increase our financial commitment to creating and maintaining distinct brand loyalty among these groups. If visitors, members and paying subscribers to our web sites and our affiliate and distribution associates do not perceive our existing services to be of high quality, or if we introduce new services or enter into new business ventures that are not favorably received by such parties, the value of our brands could be diluted, thereby decreasing the attractiveness of our web sites to such parties. In addition, we changed our corporate name in January 2005 from MatchNet plc to Spark Networks plc, however, we did not change the names of our web sites or brand names. Our adoption of a new corporate name may prevent us from taking advantage of goodwill that potential and existing customers may have associated with our old corporate name. As a result, our results of operations may be adversely affected by decreased brand recognition.

We may have potential liability under California state and federal securities laws with respect to the grant of share options to certain of our employees, directors and consultants and the exercise of these options.

Under our 2000 Executive Share Option Scheme (2000 Option Scheme), we granted options to purchase ordinary shares to certain of our employees, directors and consultants. California state securities laws generally require qualification for the offer and sale of securities subject to California law. Under California law, the grant of an option constitutes a sale of the underlying shares at the time of the option grant and not at the exercise of the option. Our option grants were not qualified and may not have been exempt from qualification under California state securities laws. As a result, we may have potential liability to those employees, directors and consultants to whom we granted options under the 2000 Option Scheme. In order to address that issue, we may elect to make a rescission offer to the holders of outstanding options under the 2000 Option Scheme to give them the opportunity to rescind the grant of their options.

As of March 31, 2006, assuming every eligible optionee were to accept a rescission offer, we estimate the total cost to us to complete the rescission would be approximately $1.9 million including statutory interest at 7% per annum. These amounts reflect the costs of offering to rescind the issuance of the outstanding options by paying an amount equal to 20% of the aggregate exercise price for the entire option.

In addition, issuances of securities upon exercise of options granted under our 2000 Option Scheme may not have been exempt from registration and qualification under California state securities laws as a result of the option grants

themselves and also may not have been exempt from registration under federal securities laws. Federal securities laws prohibit the offer or sale of securities unless the sales are registered or exempt from registration. The issuances of ordinary shares upon the exercise of our options were not registered and may not have been exempt from registration under California state and federal securities laws. As a result, we may have potential liability to those employees, directors and consultants to whom we issued securities upon the exercise of these options. In order to address that issue, we may elect to make a rescission offer to those persons who exercised all, or a portion, of those options and

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continue to hold the shares issued upon exercise, to give them the opportunity to rescind the issuance of those shares (Option Shares).

As of March 31, 2006, assuming every eligible person that continues to hold the securities issued upon exercise of options granted under the 2000 Option Scheme were to accept a rescission offer, we estimate the total cost to us to complete the rescission would be approximately $6.1 million including statutory interest at 7% per annum, accrued since the date of exercise of the options. These amounts are calculated by reference to the acquisition price of the Option Shares.

A holder could argue that this process does not represent an adequate remedy for issuance of an option and securities issued upon exercise of an option in violation of California state or federal securities laws and, if a court were to impose a greater remedy, our financial exposure could be greater. In addition, it is the Securities and Exchange Commission s position that a rescission offer will not bar or extinguish any liability under the Securities Act of 1933 with respect to these options and shares, nor will a rescission offer extinguish a holder s right to rescind the issuance of securities that were not registered or exempt from the registration requirements under the Securities Act of 1933. If any or all of the holders reject or fail to respond to our rescission offer, the holders will keep their options and securities and we may continue to be liable under federal and California state securities laws for up to an amount equal to the value of the options and securities granted or issued plus any statutory interest we may be required to pay. Further, claims or actions based on fraud may not be waived or barred pursuant to a rescission offer and there can be no assurance that we will be able to enforce any waivers that we may receive in connection with the rescission offer in order to bar such claims or other causes of action until the applicable statute of limitations has run. In addition, despite a rescission offer, whether accepted or not, if it is determined that we offered securities without properly registering them under federal or state law, or securing an exemption from registration, regulators could impose monetary fines or other sanctions as provided under these laws.

For the purposes of English company law, a rescission offer in respect of our Option Shares would take the form of a purchase by our company of the relevant Option Shares. The Companies Act 1985 (Companies Act) provides that we may only purchase our own shares using our distributable profits (as defined by the Companies Act), also known as distributable reserves (Distributable Reserves), or the proceeds from the issuance of new shares for that purpose. When we issue shares at a value which represents a premium over their nominal value, we are required by the Companies Act to transfer the premium (subject to certain limited exceptions) to a share premium account. Under the Companies Act, our ability to utilize our share premium account is very limited and does not include the payment of dividends. However, in accordance with a procedure set out in the Companies Act, we have obtained approval from our shareholders and from the High Court of Justice in England and Wales (the Court) to reduce our share premium account by US$44,000,000 with effect from December 8, 2005 (the Effective Date) in order to reduce or eliminate the deficit on our profit and loss account, which had arisen as a result of previous accumulated losses. This will enable profits, if any, arising after December 31, 2005 to give rise to Distributable Reserves, which we could use to purchase our own shares pursuant to a rescission offer. In connection with the approval from the Court, we have given an undertaking to the Court for the protection of our creditors, which requires us to transfer to a non-distributable reserve (the Special Reserve) the amount (if any) by which the deficit on our profit and loss account at December 31, 2005 falls short of the amount of the reduction (being US$44,000,000), and any profits made by us or any of our subsidiaries prior to December 31, 2005, until our non-consenting creditors at the Effective Date (Non-Consenting Creditors) have been paid off. In other words, if there is a surplus on our profit and loss account after application of the $44.0 million from the share premium reduction and any additional profits made by us prior to December 31, 2005 (Special Reserve Surplus), then we would not be permitted to use the Special Reserve Surplus to purchase our own shares until all Non-Consenting Creditors are paid. However, we do not currently expect that any sums will be required to be transferred to the Special Reserve since we do not anticipate that there will be a surplus on our profit and loss account after application of the share premium reduction and any profits made before December 31, 2005, although this will need to be confirmed when we prepare our audited UK GAAP profit and loss account and balance sheet for the year ended December 31, 2005.

Although we believe we have substantially reduced our accumulated profit and loss account deficit pursuant to the Companies Act, we are not permitted to purchase any of our own shares until we have sufficient Distributable

Reserves in order to fund such purchases of our own shares or sufficient proceeds of a new issuance of shares made for the purposes of such purchases of our own shares. As of March 31, 2006, if every eligible person holding Option Shares were to accept the rescission offer, we estimate that the amount we would need in Distributable Reserves is approximately $6.1 million. After application of the share premium reduction to the accumulated profit and loss account deficit, we anticipate that the deficit will be substantially reduced; however, we will not have any Distributable Reserves, which we will accumulate to the extent that we make any distributable profits in the future. We do not intend to make a rescission offer until we have the Distributable Reserves required to make a rescission offer of the Option Shares.

The undertaking to the Court also prevents us from making any distribution to shareholders, or redeeming or purchasing our own shares, until we have obtained approval at a shareholders general meeting of our audited UK GAAP balance sheet for the year ended

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December 31, 2005. It is likely that our UK GAAP balance sheet for the year ended December 31, 2005 will be ready for approval by shareholders on or about May 31, 2006. The share premium reduction will only be reflected on our UK GAAP balance sheet for the purposes of UK law. It will not be reflected on our US GAAP balance sheet.

Any purchase of the Option Shares pursuant to a rescission offer would not only need to be made out of Distributable Reserves, but would also require shareholder approval given in accordance with the requirements of the Companies Act. Such approval must be given by resolution passed with a majority of at least 75% of the votes cast on the resolution (excluding votes carried by the Option Shares proposed to be purchased), having made a copy of the contract for the purchase of the Option Shares available for inspection both at our registered office for at least 15 days prior to the date of the meeting to approve the purchase and at the meeting itself. Once a purchase has been completed, we would be subject to further disclosure obligations in relation to information about the purchase.

We do not intend to seek shareholder approval for a purchase of Option Shares until we have made a rescission offer which has been accepted by any one or more shareholders and it has become necessary to seek such approval.

In summary, in order to effectuate a rescission offer and repurchase any of our own shares upon any acceptances of the rescission offer, we must satisfy the following conditions: (1) obtain shareholder approval of our audited UK GAAP balance sheet for the year ended December 31, 2005; (2) obtain additional shareholder approval, as further discussed above, of any acceptances of the rescission offer to repurchase shares; and (3) have sufficient Distributable Reserves to repurchase shares subject to the rescission offer.

If we do not obtain the requisite shareholder approval of acceptances to a rescission offer or if we continue to accumulate a deficit on our profit and loss account and we do not issue new shares for additional funds for a rescission offer, then we will not be able to effectuate a rescission offer.

We have terminated and no longer grant options under our 2000 Option Scheme, but options previously granted under the 2000 Option Scheme remain in full force and effect. We filed a registration statement on Form S-8 covering the issuance of future shares upon exercise of presently unexercised options under the 2000 Option Scheme. However, none of the shares (including shares underlying unexercised options) registered on the Form S-8 will be eligible for resale if they are tendered as part of the rescission offer.

If we are unable to attract, retain and motivate key personnel or hire qualified personnel, or such personnel do not work well together, our growth prospects and profitability will be harmed.

Our performance is largely dependent on the talents and efforts of highly skilled individuals. We have recently recruited many of our directors, executive officers and other key management talent, some of which have limited or no experience in the online personals industry. For example, David E. Siminoff, our President and Chief Executive Officer, joined us in August 2004 and each of our Chief Financial Officer and Chief Operating Officer joined us in October 2004. We recently hired a General Counsel, who started work for us in April 2006. In addition, our co-founder and former Executive Chairman of the Board, Joe Y. Shapira, resigned from his executive duties in December 2005, and the employment of our former Chief Technology Officer ended in April 2006. Because members of our executive management have only worked together as a team for a limited time, there are inherent risks in the management of our company with respect to decision-making, business direction, product development and strategic relationships. In the event that the members of our executive management team are unable to work well together or agree on operating principles, business direction or business transactions or are unable to provide cohesive leadership, our business could be harmed and one or more of those individuals may discontinue their service to our company, and we would be forced to find a suitable replacement. The loss of any of our management or key personnel could seriously harm our business. Furthermore, we have recently experienced significant turnover on our board of directors. We currently have seven members serving on our board of directors. Since October 2004, we have had two directors resign from our board of directors and five directors join our board of directors. Alon Carmel, one of our company s co-founders and co-chairmen, resigned from his position in February 2005 to pursue other entrepreneurial and philanthropic interests.

In August 2004, we initiated a cost reduction program and terminated the employment of 40 full-time and temporary employees, and, as a result, our future recruiting efforts may become more difficult. We may also encounter difficulties in recruiting personnel as we become a more mature company in a competitive industry. Competition in our industry for personnel is intense, and we are aware that our competitors have directly targeted our employees. We

do not have non-competition agreements with most employees and, even in cases where we do, these agreements are of limited enforceability in California. We also do not maintain any key-person life insurance policies on our executives. The incentives to attract, retain and motivate employees provided by our option grants or by future

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arrangements, such as cash bonuses, may not be as effective as they have been in the past. If we do not succeed in attracting necessary personnel or retaining and motivating existing personnel, we may be unable to grow effectively.

Our inability to effectively manage our growth could have a materially adverse effect on our profitability.

We have experienced rapid growth since inception. The growth and expansion of our business and service offerings places a continuous significant strain on our management, operational and financial resources. We are required to manage multiple relations with various strategic associates, technology licensors, members, paying subscribers and other third parties. In the event of further growth of our operations or in the number of our third-party relationships, our computer systems or procedures may not be adequate to support our operations and our management may not be able to manage such growth effectively. To effectively manage our growth, we must continue to implement and improve our operational, financial and management information systems and to expand, train and manage our employee base. If we fail to do so, our management, operational and financial resources could be overstrained and adversely impacted.

We expect our growth rates to decline, and our operating margins could deteriorate.

Our total revenue growth for 2005 as compared to 2004 was 1% versus a growth rate of 76 in 2004 compared to 2003. We believe our revenue growth rates will continue to be substantially lower than our growth rate in 2004 as our net revenues increase to higher levels and as the growth of the online personals industry begins to slow. A February 2005 report by Jupiter Research forecasts the online personals industry would experience single digit growth in 2005 as compared to 77% growth in 2003. It is possible that our operating margins will deteriorate if revenue growth does not exceed planned increases in expenditures for all aspects of our business in an increasingly competitive environment, including sales and marketing, general and administrative and technical operations expenses.

Our business depends on our server and network hardware and software and our ability to obtain network capacity; our current safeguard systems may be inadequate to prevent an interruption in the availability of our services.

The performance of our server and networking hardware and software infrastructure is critical to our business and reputation, to our ability to attract visitors and members to our web sites, to convert them into paying subscribers and to retain paying subscribers. An unexpected and/or substantial increase in the use of our web sites could strain the capacity of our systems, which could lead to a slower response time or system failures. Although we have not yet experienced many significant delays, any future slowdowns or system failures could adversely affect the speed and responsiveness of our web sites and would diminish the experience for our visitors, members and paying subscribers. We face risks related to our ability to scale up to our expected customer levels while maintaining superior performance. If the usage of our web sites substantially increases, we may need to purchase additional servers and networking equipment and services to maintain adequate data transmission speeds, the availability of which may be limited or the cost of which may be significant. Any system failure that causes an interruption in service or a decrease in the responsiveness of our web sites could reduce traffic on our web sites and, if sustained or repeated, could impair our reputation and the attractiveness of our brands as well as reduce revenue and negatively impact our operating results.

Furthermore, we rely on many different hardware systems and software applications, some of which have been developed internally. If these hardware systems or software applications fail, it would adversely affect our ability to provide our services. If we are unable to protect our data from loss or electronic or magnetic corruption, or if we receive a significant unexpected increase in usage and are not able to rapidly expand our transaction-processing systems and network infrastructure without any systems interruptions, it could seriously harm our business and reputation. We have experienced occasional systems interruptions in the past as a result of unexpected increases in usage, and we cannot assure you that we will not incur similar or more serious interruptions in the future. From time to time, our company and our web sites have been subject to delays and interruptions due to software viruses, or variants thereof, such as internet worms. To date, we have not experienced delays or systems interruptions that have had a material impact on our business.

In addition, we do not currently have adequate disaster recovery systems in place, which means in the event of any catastrophic failure involving our web sites, we may be unable to serve our web traffic for a significant period of time. Our servers primarily operate from only a single site in Southern California and the absence of a backup site could

exacerbate this disruption. Any system failure, including network, software or hardware failure, that causes an interruption in the delivery of our web sites and services or a decrease in responsiveness of our services would result in reduced visitor traffic, reduced revenue and would adversely affect our reputation and brands.

The failure to establish and maintain affiliate agreements and relationships could limit the growth of our business.

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We have entered into, and expect to continue to enter into, arrangements with affiliates to increase our member and paying subscribers bases, bring traffic to our web sites and enhance our brands. Pursuant to our arrangements, an affiliate generally advertises or promotes our web site on its web site, and earns a fee whenever visitors to its web site click though the advertisement to one of our web sites and registers or subscribes on our web site. Affiliate arrangements constitute over half of our marketing program. These affiliate arrangements are easily cancelable, often with one day notice. We do not typically have any exclusivity arrangements with our affiliates, and some of our affiliates may also be affiliates for our competitors. None of these affiliates, individually, represents a material portion of our revenue. If any of our current affiliate agreements is terminated, we may not be able to replace the terminated agreement with an equally beneficial arrangement. We cannot assure you that we will be able to renew any of our current agreements when they terminate or, if we are able to do so, that such renewals will be available on acceptable terms. We also do not know whether we will be able to enter into additional agreements or that any relationships, if entered into, will be on terms favorable to us.

We rely on a number of third-party providers, and their failure or unwillingness to continue to perform could harm us.

We rely on third parties to provide important services and technologies to us, including a third party that manages and monitors our offsite data center located in Southern California, ISPs, search engine marketing providers and credit card processors. In addition, we license technologies from third parties to facilitate our ability to provide our services. Any failure on our part to comply with the terms of these licenses could result in the loss of our rights to continue using the licensed technology, and we could experience difficulties obtaining licenses for alternative technologies. Furthermore, any failure of these third parties to provide these and other services, or errors, failures, interruptions or delays associated with licensed technologies, could significantly harm our business. Any financial or other difficulties our providers face may have negative effects on our business, the nature and extent of which we cannot predict. Except to the extent of the terms of our contracts with such third party providers, we exercise little or no control over them, which increases our vulnerability to problems with the services and technologies they provide and license to us. In addition, if any fees charged by third-party providers were to substantially increase, such as if ISPs began charging us for email sent by our paying subscribers to other members or paying subscribers, we could incur significant additional losses.

If we fail to develop or maintain an effective system of internal controls over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential shareholders could lose confidence in our financial reporting, which would harm the value of our shares.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports, effectively prevent fraud and operate as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. We have, in the past, discovered and may, in the future, discover areas of our internal controls over financial reporting that need improvement. For example, during our audit of 2003 results, our external auditors brought to our attention a need to restate 2001 and 2002 results and also noted, in a letter to management, certain conditions involving internal controls and operations, none of which were a material weakness. Furthermore, in 1994, a civil action was filed in Israeli district court (the Action) involving Videomatrix Industries, LTD (Videomatrix), a company unrelated to Spark Networks except of which our former Co-chairman and current Chairman were officers. In that Action, our former Co-chairman was a respondent, the Israeli equivalent of a defendant, and our current Chairman was a formal respondent, but not a defendant. The Action was initiated by a venture capital lender to, and investor in, Videomatrix. The Israeli court appointed an investigator to make factual findings. The investigator noted that there were inaccurate records and/or entries in corporate books, incomplete disclosures and/or inaccurate representations in a prospectus, questionable documents, and undisclosed related party transactions, involving Videomatrix. Thereafter, the court issued an order providing for a four month moratorium on litigation to permit Videomatrix, its audit committee, and its auditors to conduct an examination and form conclusions. Our Chairman and former Co-chairman purchased the entire ownership interest of the venture capital lender in Videomatrix during the moratorium provided for in the court order, and no further action was taken by the venture capital lender in connection with this matter.

As a U.S. public company, we are subject to the reporting requirements of the Sarbanes-Oxley Act of 2002. We will be required to annually assess and report on our internal controls over financial reporting. If we are unable to adequately establish or improve our internal controls over financial reporting, we may report that our internal controls are ineffective and our external auditors will not be able to issue an unqualified opinion on the effectiveness of our internal controls. Ineffective internal controls over financial reporting could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our securities or could affect our ability to access the capital markets and which could result in regulatory proceedings against us by, among others, the U.S. Securities Exchange Commission.

We face risks related to our recent accounting restatements, which could result in costly litigation or regulatory proceedings against us.

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Our ordinary shares in the form of GDSs trade on the Frankfurt Stock Exchange in Germany. Pursuant to the laws governing this exchange, we have been publicly reporting our quarterly and annual operating results. On April 28, 2004, we publicly announced that we had discovered accounting inaccuracies in previously reported financial statements. As a result, following consultation with our new auditors, we restated our financial statements for the nine months ended September 30, 2003 and for each of the years ended December 31, 2001 and 2002 to correct inappropriate accounting entries. The restatements primarily related to the timing of recognition of deferred revenue and the capitalization of bounty costs, which are the amounts paid to online marketers to acquire members. The restatements are in accordance with United States generally accepted accounting principles and pertain primarily to timing matters and had no impact on cash flow from operations or our ongoing operations. The impact on net loss for 2001 and 2002 was an increase of $1.5 million and $1.0 million, respectively.

The restatement of the financial statements may lead to litigation claims and/or regulatory proceedings against us. The defense of any such claims or proceedings may cause the diversion of management s attention and resources, and we may be required to pay damages if any such claims or proceedings are not resolved in our favor. Any litigation or regulatory proceeding, even if resolved in our favor, could cause us to incur significant legal and other expenses. Moreover, we may be the subject of negative publicity focusing on the financial statement inaccuracies and resulting restatement. The occurrence of any of the foregoing could divert our resources, harm our reputation and cause the price of our securities to decline.

Acquisitions could result in operating difficulties, dilution and other harmful consequences.

In May 2005, we acquired MingleMatch, Inc., and we plan, during the next few years, to further extend and develop our presence, both within the United States and internationally, partially through acquisitions of entities offering online personals services and related businesses. We have limited experience acquiring companies and the companies we have acquired have been small. We have evaluated, and continue to evaluate, a wide array of potential strategic transactions. From time to time, we may engage in discussions regarding potential acquisitions, some of which may divert significant resources away from our daily operations. In addition, the process of integrating an acquired company, business or technology is risky and may create unforeseen operating difficulties and expenditures. For example, we have been engaged in significant litigation in the past, but which has since settled, with respect to our acquisition of SocialNet, Inc. in 2001. Some areas where we may face risks include:

- the need to implement or remediate controls, procedures and policies of acquired companies that lacked appropriate controls, procedures and policies prior to the acquisition;
- diversion of management time and focus from operating our business to acquisition integration challenges;
- cultural challenges associated with integrating employees from an acquired company into our organization;
- retaining employees from the businesses we acquire; and
- the need to integrate each company s accounting, management information, human resource and other administrative systems to permit effective management.

The anticipated benefit of many of our acquisitions may not materialize. Future acquisitions could result in potentially dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities or amortization expenses, or write-offs, any of which could harm our financial condition. Future acquisitions may require us to obtain additional equity or debt financing, which may not be available on favorable terms or at all.

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We may not be effective in protecting our Internet domain names or proprietary rights upon which our business relies or in avoiding claims that we infringe upon the proprietary rights of others.

We regard substantial elements of our web sites and the underlying technology as proprietary, and attempt to protect them by relying on trademark, service mark, copyright, patent and trade secret laws, and restrictions on disclosure and transferring title and other methods. We also generally enter into confidentiality agreements with our employees and consultants, and generally seek to control access to and distribution of our technology, documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our proprietary information without authorization or to develop similar or superior technology independently. Effective trademark, service mark, copyright, patent and trade secret protection may not be available in every country in which our services are distributed or made available through the Internet, and policing unauthorized use of our proprietary information is difficult. Any such misappropriation or development of similar or superior technology by third parties could adversely impact our profitability and our future financial results.

We believe that our web sites, services, trademarks, patent and other proprietary technologies do not infringe upon the rights of third parties. However, there can be no assurance that our business activities do not and will not infringe upon the proprietary rights of others, or that other parties will not assert infringement claims against us. We are aware that other parties utilize the Spark name, or other marks that incorporate it, and those parties may have rights to such marks that are superior to ours. From time to time, we have been, and expect to continue to be, subject to claims in the ordinary course of business including claims of alleged infringement of the trademarks, service marks and other intellectual property rights of third parties by us. Although such claims have not resulted in any significant litigation or had a material adverse effect on our business to date, any such claims and resultant litigation might subject us to temporary injunctive restrictions on the use of our products, services or brand names and could result in significant liability for damages for intellectual property infringement, require us to enter into royalty agreements, or restrict us from using infringing software, services, trademarks, patents or technologies in the future. Even if not meritorious, such litigation could be time-consuming and expensive and could result in the diversion of management s time and attention away from our day-to-day business.

We currently hold various web domain names relating to our brands and in the future may acquire new web domain names. The regulation of domain names in the United States and in foreign countries is subject to change. Governing bodies may establish additional top level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may be unable to acquire or maintain relevant domain names in all countries in which we conduct business. Furthermore, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is unclear. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our existing trademarks and other proprietary rights or those we may seek to acquire. Any such inability to protect ourselves could cause us to lose a significant portion of our members and paying subscribers to our competitors.

We may face potential liability, loss of users and damage to our reputation for violation of our privacy policy or privacy laws and regulations.

Our privacy policy prohibits the sale or disclosure to any third party of any member s personal identifying information, except to the extent expressly set forth in the policy. Growing public concern about privacy and the collection, distribution and use of information about individuals may subject us to increased regulatory scrutiny and/or litigation. In the past, the Federal Trade Commission has investigated companies that have used personally identifiable information without permission or in violation of a stated privacy policy. If we are accused of violating the stated terms of our privacy policy, we may be forced to expend significant amounts of financial and managerial resources to defend against these accusations and we may face potential liability. Our membership database holds confidential information concerning our members, and we could be sued if any of that information is misappropriated or if a court determines that we have failed to protect that information.

In addition, our affiliates handle personally identifiable information pertaining to our members and paying subscribers. Both we and our affiliates are subject to laws and regulations related to Internet communications (including the CAN-SPAM Act of 2003), consumer protection, advertising, privacy, security and data protection. If we or our affiliates are found to be in violation of these laws and regulations, we may become subject to

administrative fines or litigation, which could materially increase our expenses and cause the value of our securities to decline.

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We may be liable as a result of information retrieved from or transmitted over the Internet.

We may be sued for defamation, civil rights infringement, negligence, copyright or trademark infringement, invasion of privacy, personal injury, product liability or under other legal theories relating to information that is published or made available on our web sites and the other sites linked to it. These types of claims have been brought, sometimes successfully, against online services in the past. We also offer email services, which may subject us to potential risks, such as liabilities or claims resulting from unsolicited email or spamming, lost or misdirected messages, security breaches, illegal or fraudulent use of email or personal information or interruptions or delays in email service. Our insurance does not specifically provide for coverage of these types of claims and, therefore, may be inadequate to protect us against them. In addition, we could incur significant costs in investigating and defending such claims, even if we ultimately are not held liable. If any of these events occurs, our revenues could be materially adversely affected or we could incur significant additional expense, and the market price of our securities may decline.

Our quarterly results may fluctuate because of many factors and, as a result, investors should not rely on quarterly operating results as indicative of future results.

Fluctuations in operating results or the failure of operating results to meet the expectations of public market analysts and investors may negatively impact the value of our ordinary shares and depositary shares. Quarterly operating results may fluctuate in the future due to a variety of factors that could affect revenues or expenses in any particular quarter. Fluctuations in quarterly operating results could cause the value of our securities to decline. Investors should not rely on quarter-to-quarter comparisons of results of operations as an indication of future performance. Factors that may affect our quarterly results include:

- the demand for, and acceptance of, our online personals services and enhancements to these services;
- the timing and amount of our subscription revenues;
- the introduction, development, timing, competitive pricing and market acceptance of our web sites and services and those of our competitors;
- the magnitude and timing of marketing initiatives and capital expenditures relating to expansion of our operations;
- the cost and timing of online and offline advertising and other marketing efforts;
- the maintenance and development of relationships with portals, search engines, ISPs and other web properties and other entities capable of attracting potential members and paying subscribers to our web sites;
- technical difficulties, system failures, system security breaches, or downtime of the Internet, in general, or of our products and services, in particular;
- costs related to any acquisitions or dispositions of technologies or businesses; and
- general economic conditions, as well as those specific to the Internet, online personals and related industries.

As a result of the factors listed above and because the online personals business is still immature, making it difficult to predict consumer demand, it is possible that in future periods results of operations may be below the expectations of public market analysts and investors. This could cause the market price of our securities to decline.

We may need additional capital to finance our growth or to compete, which may cause dilution to existing shareholders or limit our flexibility in conducting our business activities.

We currently anticipate that existing cash, cash equivalents and marketable securities and cash flow from operations will be sufficient to meet our anticipated needs for working capital, operating expenses and capital expenditures for at least the next 12 months. We may need to raise additional capital in the future to fund expansion, whether in new vertical affinity or geographic markets, develop newer or enhanced services, respond to competitive pressures or

acquire complementary businesses, technologies or services. Such additional financing may not be available on terms acceptable to us or at all. To the extent that we raise additional capital by issuing equity securities, our shareholders may experience substantial dilution, and to the extent we engage in debt financing, if available, we may become subject to restrictive covenants that could limit our flexibility in conducting future business activities. If additional financing is not available or not available on acceptable terms, we may not be able to fund our expansion, promote our brands, take advantage of acquisition opportunities, develop or enhance services or respond to competitive pressures.

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Our limited experience outside the United States increases the risk that our international efforts and operations will not be effective.

Although we currently have offices in Germany, Israel and the United Kingdom and web sites that serve the Australian, Canadian, Israeli and United Kingdom markets, we have only limited experience with operations outside the United States. Our primary international operations are in Israel, which carries additional risk for our business as a result of continuing hostilities there. Operations in international markets requires management time and capital resources. In addition, we face the following additional risks associated with our operations outside the United States:

- challenges caused by distance, language and cultural differences;
- local competitors with substantially greater brand recognition, more users and more traffic than we have;
- our need to create and increase our brand recognition and improve our marketing efforts internationally and build strong relationships with local affiliates;
- longer payment cycles in some countries;
- credit risk and higher levels of payment fraud in some countries;
- different legal and regulatory restrictions among jurisdictions;
- political, social and economic instability;
- potentially adverse tax consequences; and
- higher costs associated with doing business internationally.

Our international operations subject us to risks associated with currency fluctuations.

Our foreign operations may subject us to currency fluctuations and such fluctuations may adversely affect our financial position and results. However, sales and expenses to date have occurred primarily in the United States. For this reason, we have not engaged in foreign exchange hedging. In connection with our planned international expansion, currency risk positions could change correspondingly and the use of foreign exchange hedging instruments could become necessary. Effects of exchange rate fluctuations on our financial condition, operations, and profitability may depend on our ability to manage our foreign currency risks. There can be no assurance that steps taken by management to address foreign currency fluctuations will eliminate all adverse effects and, accordingly, we may suffer losses due to adverse foreign currency fluctuation.

Our business could be significantly impacted by the occurrence of natural disasters and other catastrophic events.

Our operations depend upon our ability to maintain and protect our network infrastructure, hardware systems and software applications, which are housed primarily at a data center located in Southern California that is managed by a third party. Our business is therefore susceptible to earthquakes, tsunamis and other catastrophic events, including acts of terrorism. We currently lack adequate redundant network infrastructure, hardware and software systems supporting our services at an alternate site. As a result, outages and downtime caused by natural disasters and other events out of our control, which affect our systems or primary data center, could adversely affect our reputation, brands and business.

We hold a fixed amount of insurance coverage, and if we were found liable for an uninsured claim, or claim in excess of our insurance limits, we may be forced to expend a significant capital to resolve the uninsured claim.

We contract for a fixed amount of insurance to cover potential risks and liabilities, including, but not limited to, property and casualty insurance, general liability insurance, and errors and omissions liability insurance. Although we have not recently experienced any significantly increased premiums as a result of changing policies of our providers, we have experienced increasing insurance premiums due to the increasing size of our business, and thus the increased

potential risk to underwriters for insuring our business. If we decide to obtain additional insurance coverage in the future, it is possible that we may not be able to get enough insurance to meet

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our needs, we may have to pay very high prices for the coverage we do get, or we may not be able to acquire any insurance for certain types of business risk or may have gaps in coverage for certain risks. This could leave us exposed to potential uninsured claims for which we could have to expend significant amounts of capital resources. Consequently, if we were found liable for a significant uninsured claim in the future, we may be forced to expend a significant amount of our operating capital to resolve the uninsured claim.

Our services are not well-suited to many alternate Web access devices, and as a result, the growth of our business could be negatively affected.

The number of people who access the Internet through devices other than desktop and laptop computers, including mobile telephones and other handheld computing devices, has increased dramatically in the past few years, and we expect this growth to continue. The lower resolution, functionality and memory currently associated with such mobile devices may make the use of our services through such mobile devices more difficult and generally impairs the member experience relative to access via desktop and laptop computers. If we are unable to attract and retain a substantial number of such mobile device users to our online personals services or if we are unable to develop services that are more compatible with such mobile communications devices, our growth could be adversely affected.

Risks Related to Our Industry

The percentage of canceling paying subscribers in comparison to other subscription businesses requires that we continuously seek new paying subscribers to maintain or increase our current level of revenue.

Internet users in general, and users of online personals services specifically, freely navigate and switch among a large number of web sites. Monthly subscriber churn represents the ratio expressed as a percentage of (a) the number of paying subscriber cancellations during the period divided by the average number of paying subscribers during the period and (b) the number of months in the period. The number of average paying subscribers is calculated as the sum of the paying subscribers at the beginning and end of the month, divided by two. Average paying subscribers for periods longer than one month are calculated as the sum of the average paying subscribers for each month, divided by the number of months. For the three months ended March 31, 2006, the monthly subscriber churn for (1) the JDate segment was 24.5% (2) the AmericanSingles segment was 30.1% and (3) the web sites in our Other Businesses segment was 27.1%. We cannot assure you that our monthly average subscriber churn will remain at such levels, and it may increase in the future. This makes it difficult for us to have a stable paying subscriber base and requires that we constantly attract new paying subscribers at a faster rate than subscription terminations to maintain or increase our current level of revenue. If we are unable to attract new paying subscribers on a cost-effective basis, our business will not grow and our profitability will be adversely affected.

Our network is vulnerable to security breaches and inappropriate use by Internet users, which could disrupt or deter future use of our services.

Concerns over the security of transactions conducted on the Internet and the privacy of users may inhibit the growth of the Internet and other online services generally, and online commerce services, like ours, in particular. To date, we have not experienced any material breach of our security systems; however, our failure to effectively prevent security breaches could significantly harm our business, reputation and results of operations and could expose us to lawsuits by state and federal consumer protection agencies, by governmental authorities in the jurisdictions in which we operate, and by consumers. Anyone who is able to circumvent our security measures could misappropriate proprietary information, including customer credit card and personal data, cause interruptions in our operations or damage our brand and reputation. Such breach of our security measures could involve the disclosure of personally identifiable information and could expose us to a material risk of litigation, liability or governmental enforcement proceeding. We cannot assure you that our financial systems and other technology resources are completely secure from security breaches or sabotage, and we have occasionally experienced security breaches and attempts at hacking. We may be required to incur significant additional costs to protect against security breaches or to alleviate problems caused by such breaches. Any well-publicized compromise of our security or the security of any other Internet provider could deter people from using our services or the Internet to conduct transactions that involve transmitting confidential information or downloading sensitive materials, which could have a detrimental impact on our potential customer base.

Computer viruses may cause delays or other service interruptions and could damage our reputation, affect our ability to provide our services and adversely affect our revenues. The inadvertent transmission of computer viruses could also expose us to a material risk of loss or litigation and possible liability. Moreover, if a computer virus affecting our system were highly publicized, our reputation could be significantly damaged, resulting in the loss of current and future members and paying subscribers.

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We face certain risks related to the physical and emotional safety of our members and paying subscribers.
The nature of online personals services is such that we cannot control the actions of our members and paying subscribers in their communication or physical actions. There is a possibility that one or more of our members or paying subscribers could be physically or emotionally harmed following interaction with another of our members or paying subscribers. We warn our members and paying subscribers that we do not and cannot screen other members and paying subscribers and, given our lack of physical presence, we do not take any action to ensure personal safety on a meeting between members or paying subscribers arranged following contact initiated via our web sites. If an unfortunate incident of this nature occurred in a meeting of two people following contact initiated on one of our web sites or a web site of one of our competitors, any resulting negative publicity could materially and adversely affect us or the online personals industry in general. Any such incident involving one of our web sites could damage our reputation and our brands. This, in turn, could adversely affect our revenues and could cause the value of our ordinary shares and depositary shares to decline. In addition, the affected members or paying subscribers could initiate legal action against us, which could cause us to incur significant expense, whether we were successful or not, and damage our reputation.

We face risks of litigation and regulatory actions if we are deemed a dating service as opposed to an online personals service.
We supply online personals services. In many jurisdictions, companies deemed dating service providers are subject to additional regulation, while companies that provide personals services are not generally subject to similar regulation. Because personals services and dating services can seem similar, we are exposed to potential litigation, including class action lawsuits, associated with providing our personals services. In the past, a small percentage of our members have alleged that we are a dating service provider, and, as a result, they claim that we are required to comply with regulations that include, but are not limited to, providing language in our contracts that may allow members to (1) rescind their contracts within a certain period of time, (2) demand reimbursement of a portion of the contract price if the member dies during the term of the contract and/or (3) cancel their contracts in the event of disability or relocation. If a court holds that we have provided and are providing dating services of the type the dating services regulations are intended to regulate, we may be required to comply with regulations associated with the dating services industry and be liable for any damages as a result our past and present non-compliance.
Three separate yet similar class action complaints have been filed against us. On June 21, 2002, Tatyana Fertelmeyster filed an Illinois class action complaint against us in the Circuit Court of Cook County, Illinois, based on an alleged violation of the Illinois Dating Referral Services Act. On September 12, 2002, Lili Grossman filed a New York class action complaint against us in the Supreme Court in the State of New York based on alleged violations of the New York Dating Services Act and the Consumer Fraud Act. On November 14, 2003, Jason Adelman filed a nationwide class action complaint against us in the Los Angeles County Superior Court based on an alleged violation of California Civil Code section 1694 et seq., which regulates businesses that provide dating services. In each of these cases, the complaint included allegations that we are a dating service as defined by the applicable statutes and, as an alleged dating service, we are required to provide language in our contracts that allows (i) members to rescind their contracts within three days, (ii) reimbursement of a portion of the contract price if the member dies during the term of the contract and/or (iii) members to cancel their contracts in the event of disability or relocation. Causes of action include breach of applicable state and/or federal laws, fraudulent and deceptive business practices, breach of contract and unjust enrichment. The plaintiffs are seeking remedies including declaratory relief, restitution, actual damages although not quantified, treble damages and/or punitive damages, and attorney s fees and costs.
Huebner v. InterActiveCorp., Superior Court of the State of California, County of Los Angeles, Case No. BC 305875 involves a similar action, involving the same plaintiff s counsel as *Adelman,* brought against InterActiveCorp s Match.com that has been ruled related to *Adelman,* but the two cases have not been consolidated. We have not been named a defendant in the *Huebner* case. *Adelman* and *Huebner* each seek to certify a nationwide class action based on their complaints. Because the cases are class actions, they have been assigned to the Los Angeles Superior Court Complex Litigation Program. The court has ordered a bifurcation of the liability issue. At an August 15, 2005 Status Conference, the court set the bifurcated trial on the issue of liability for March 27, 2006. The date of the bifurcated trial has been continued to approximately June 12, 2006 and the time for filing briefs and completing discovery, in

Adelman, has been extended. In addition, the parties resumed mediation on February 23, 2006, but it did not result in a settlement.

On March 25, 2005, the court in *Fertelmeyster* entered its Memorandum Opinion and Order (Memorandum Opinion) granting summary judgment in our favor on the grounds that Fertelmeyster lacks standing to seek injunctive relief or restitutionary relief under the Illinois Dating Services Act, Fertelmeyster did not suffer any actual damages, and we were not unjustly enriched as a result of our contract with Fertelmeyster. The Memorandum Opinion disposes of all matters in controversy in the litigation and also provides that we are subject to the Illinois Dating Services Act and, as such, our subscription agreements violate the act and are void and unenforceable. This ruling may subject us to potential liability for claims brought by the Illinois Attorney General or customers that

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have been injured by our violation of the statute. Fertelmeyster filed a Motion for Reconsideration of the Memorandum Opinion and, on August 26, 2005, the court issued its opinion denying Fertelmeyster s Motion for Reconsideration. In the opinion, the court, among other things: (i) decertified the class, eliminating the last remnant of the litigation; (ii) rejected each of the plaintiff s arguments based on the arguments and law that we provided in our opposition; (iii) stated that the court would not judicially amend the Illinois statute to provide for restitution when the legislature selected damages as the sole remedy; (iv) noted that the cases cited by plaintiff in connection with plaintiff s Motion for Reconsideration actually support the court s prior order granting summary judgment in our favor; and (v) denied plaintiff s Motion for Reconsideration in its entirety. The time for filing an appeal from the Memorandum Opinion and the court s order denying Fertelmeyster s Motion for Reconsideration has now lapsed and as a result thereof, this litigation has concluded.

In December 2002, the Supreme Court of New York dismissed the case brought by Ms. Grossman. Although the plaintiff appealed the decision, in October 2004, the New York Supreme Court, Appellate Division upheld the lower court s dismissal. In addition, two Justices wrote concurring opinions stating their opinion that our services were not covered under the New York Dating Services Act. We intend to defend vigorously against each of the pending lawsuits, however, no assurance can be given that these matters will be resolved in our favor and, depending on the outcome of these lawsuits, we may choose to alter our business practices.

We are exposed to risks associated with credit card fraud and credit payment, which, if not properly addressed, could increase our operating expenses.

We depend on continuing availability of credit card usage to process subscriptions and this availability, in turn, depends on acceptable levels of chargebacks and fraud performance. We have suffered losses and may continue to suffer losses as a result of subscription orders placed with fraudulent credit card data, even though the associated financial institution approved payment. Under current credit card practices, a merchant is liable for fraudulent credit card transactions when, as is the case with the transactions we process, that merchant does not obtain a cardholder s signature. Our failure to adequately control fraudulent credit card transactions would result in significantly higher credit card-related costs and, therefore, increase our operating expenses and may preclude us from accepting credit cards as a means of payment.

We face risks associated with our dependence on computer and telecommunications infrastructure.

Our services are dependent upon the use of the Internet and telephone and broadband communications to provide high-capacity data transmission without system downtime. There have been instances where regional and national telecommunications outages have caused us, and other Internet businesses, to experience systems interruptions. Any additional interruptions, delays or capacity problems experienced with telephone or broadband connections could adversely affect our ability to provide services to our customers. The temporary or permanent loss of all, or a portion, of the telecommunications system could cause disruption to our business activities and result in a loss of revenue. Additionally, the telecommunications industry is subject to regulatory control. Amendments to current regulations, which could affect our telecommunications providers, could disrupt or adversely affect the profitability of our business.

In addition, if any of our current agreements with telecommunications providers were terminated, we may not be able to replace any terminated agreements with equally beneficial ones. There can be no assurance that we will be able to renew any of our current agreements when they expire or, if we are able to do so, that such renewals will be available on acceptable terms. We also do not know whether we will be able to enter into additional agreements or that any relationships, if entered into, will be on terms favorable to us.

Our business depends, in part, on the growth and maintenance of the Internet, and our ability to provide services to our members and paying subscribers may be limited by outages, interruptions and diminished capacity in the Internet.

Our performance will depend, in part, on the continued growth and maintenance of the Internet. This includes maintenance of a reliable network backbone with the necessary speed, data capacity and security for providing reliable Internet services. Internet infrastructure may be unable to support the demands placed on it if the number of Internet users continues to increase, or if existing or future Internet users access the Internet more often or increase their bandwidth requirements. In addition, viruses, worms and similar programs may harm the performance of the Internet.

We have no control over the third-party telecommunications, cable or other providers of access services to the Internet that our members and paying subscribers rely upon. There have been instances where regional and national telecommunications outages have caused us to experience service interruptions during which our members and paying subscribers could not access our services. Any additional interruptions, delays or capacity problems experienced with any points of access between the Internet and our members could adversely affect our ability to provide services reliably to our members

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and paying subscribers. The temporary or permanent loss of all, or a portion, of our services on the Internet, the Internet infrastructure generally, or our members and paying subscribers ability to access the Internet could disrupt our business activities, harm our business reputation, and result in a loss of revenue. Additionally, the Internet, electronic communications and telecommunications industries are subject to federal, state and foreign governmental regulation. New laws and regulations governing such matters could be enacted or amendments may be made to existing regulations at any time that could adversely impact our services. Any such new laws, regulations or amendments to existing regulations could disrupt or adversely affect the profitability of our business.

We are subject to burdensome government regulations and legal uncertainties affecting the Internet that could adversely affect our business.

Legal uncertainties surrounding domestic and foreign government regulations could increase our costs of doing business, require us to revise our services, prevent us from delivering our services over the Internet or slow the growth of the Internet, any of which could increase our expenses, reduce our revenues or cause our revenues to grow at a slower rate than expected and materially adversely affect our business, financial condition and results of operations. Laws and regulations related to Internet communications, security, privacy, intellectual property rights, commerce, taxation, entertainment, recruiting and advertising are becoming more prevalent, and new laws and regulations are under consideration by the United States Congress, state legislatures and foreign governments. For example, during 2004 and 2005, legislation related to the use of background checks for users of online personals services was proposed in Ohio, Texas, California, Michigan and Florida. None of these states enacted these proposed laws, however, state legislatures including Illinois and Florida are still considering the implementation of such legislation. The enactment of any of these proposed laws could require us to alter our service offerings and could negatively impact our performance by making it more difficult and costly to obtain new subscribers and may also subject us to additional liability for failure to properly screen our subscribers. Any legislation enacted or restrictions arising from current or future government investigations or policy could dampen the growth in use of the Internet, generally, and decrease the acceptance of the Internet as a communications, commercial, entertainment, recruiting and advertising medium. In addition to new laws and regulations being adopted, existing laws that are not currently being applied to the Internet may subsequently be applied to it and, in several jurisdictions, legislatures are considering laws and regulations that would apply to the online personals industry in particular. Many areas of law affecting the Internet and online personals remain unsettled, even in areas where there has been some legislative action. It may take years to determine whether and how existing laws such as those governing consumer protection, intellectual property, libel and taxation apply to the Internet or to our services.

In the normal course of our business, we handle personally identifiable information pertaining to our members and paying subscribers residing in the United States and other countries. In recent years, many of these countries have adopted privacy, security, and data protection laws and regulations intended to prevent improper uses and disclosures of personally identifiable information. In addition, some jurisdictions impose database registration requirements for which significant monetary and other penalties may be imposed for noncompliance. These laws may impose costly administrative requirements, limit our handling of information, and subject us to increased government oversight and financial liabilities. Privacy laws and regulations in the United States and foreign countries are subject to change and may be inconsistent, and additional requirements may be imposed at any time. These laws and regulations, the costs of complying with them, administrative fines for noncompliance and the possible need to adopt different compliance measures in different jurisdictions could materially increase our expenses and cause the value of our securities to decline.

Risks Related to Owning Our Securities

The price of our ADSs may be volatile, and if an active trading market for our ADSs does not develop, the price of our ADSs may suffer and decline.

Prior to the registration of all of our issued and outstanding ordinary shares in February 2006, there was no public market for our securities in the United States. Accordingly, we cannot assure you that an active trading market will develop or be sustained or that the market price of our ADSs will not decline. The price at which our ADSs will trade is likely to be highly volatile and may fluctuate substantially due to many factors, some of which are outside of our control. In addition, the stock market has experienced significant price and volume fluctuations that have affected the

market price for the stock of many technology, communications and entertainment and media companies. Those market fluctuations were sometimes unrelated or disproportionate to the operating performance of these companies. Any significant stock market fluctuations in the future, whether due to our actual performance or prospects or not, could result in a significant decline in the market price of our securities.

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Our principal shareholders can exercise significant influence over us, and, as a result, may be able to delay, deter or prevent a change of control or other business combination.

As of May 1, 2006, Joe Y. Shapira, Alon Carmel, Great Hill Investors, LLC and Tiger Global Management, L.L.C. and their respective affiliates beneficially owned approximately, in the aggregate, 47% of our outstanding share capital. Mr. Shapira is a co-founder of our company and current Chairman of our Board of Directors. Mr. Carmel is a co-founder, former President and former Executive Co-Chairman of our Board of Directors. Great Hill Investors, LLC and its affiliates (Great Hill) became our largest shareholder on December 1, 2005 when it purchased an aggregate of 6,000,000 ordinary shares in four privately negotiated transactions. Of the 6,000,000 shares purchased, (i) 1,250,000 shares were purchased from Mr. Shapira at $4.60 per share, (ii) 1,250,000 shares were purchased from Mr. Carmel at $4.60 per share, (iii) 1,500,000 shares were purchased from Criterion Capital Management LLC, a more than 5% holder of our securities, at $5.35 per share and (iv) 2,000,000 shares were purchased from affiliates of Tiger Global Management L.L.C. at $5.35 per share. Tiger Global Management, L.L.C. (Tiger Global Management) is our second largest shareholder, and one of our directors, Scott Shleifer, is a limited partner of Tiger Global, L.P., an affiliate of Tiger Global Management. These shareholders possess significant influence over our company. Such share ownership and control may have the effect of delaying or preventing a change in control of our company, impeding a merger, consolidation, takeover or other business combination involving our company or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of our company. Furthermore, such share ownership may have the effect of control over substantially all matters requiring shareholder approval, including the election of directors. Other than the arrangement to elect a director at the selection of Great Hill, as discussed below, we do not expect that these shareholders will vote together as a group.

Our largest shareholder, Great Hill, also possesses a significant amount of voting power and an ability to elect a director of our company.

Great Hill beneficially owns 6,000,000 shares of our company, or approximately 19.8% of our outstanding shares, and has voting control of an aggregate of approximately 48.9% of our securities to elect a director of our company subject to the terms and conditions of the share purchase agreements entered into on December 1, 2005 with each of Mr. Shapira, Mr. Carmel, affiliates of Tiger Global Management, and Criterion Capital Management, LLC (Criterion Capital Management, and collectively with Mr. Shapira, Mr. Carmel and Tiger Global Management, the Selling Shareholders). Pursuant to the terms of the share purchase agreements with each of the Selling Shareholders, for so long as Great Hill collectively owns: (i) in the case of the share purchase agreements entered into with Messrs. Shapira and Carmel, at least 10% of the outstanding ordinary shares; and (ii) in the case of the share purchase agreements entered into with Tiger Global Management and Criterion Capital Management, at least 5% of the outstanding ordinary shares, each Selling Shareholder agreed that:

- if at any time Great Hill notifies a Selling Shareholder of its desire and intention to designate a single director (Great Hill Director) in advance of any meeting of the shareholders for the election of directors or when any other approval is sought with respect to the election of directors, such Selling Shareholder agreed to vote all of its voting shares that are owned or held of record by such Selling Shareholder or to which it has voting power or can direct, restrict or control any such voting power (the Remaining Shares) to elect such Great Hill Director; and

- if at any time Great Hill notifies a Selling Shareholder of its desire and intention to remove or replace a Great Hill Director or to fill a vacancy caused by the resignation of a Great Hill Director, such Selling Shareholder agreed to cooperate in causing the requested removal and/or replacement by voting in the appropriate manner.

Each Selling Shareholder also irrevocably granted, and appointed Michael A. Kumin, and any other person who shall be designated by Great Hill, as such Selling Shareholder s proxy and attorney (with full power of substitution), to vote all of such Selling Shareholder s Remaining Shares held at the time such consent is sought or meeting is held in any circumstances where a vote, consent or other approval is sought to elect a Great Hill Director. The covenants and obligations of each Selling Shareholder terminate after a Great Hill Director (together with any replacements therefore) has served a single, full term of office of three years, in accordance with the our articles and memorandum of association, as in effect on December 1, 2005.

As a result of its voting arrangement with the Selling Shareholders, Great Hill is able to select a member of our Board of Directors at its discretion and is able to exercise significant influence over our company. This influence has the potential to delay, prevent, change or initiate a change in control, acquisition, merger or other transaction, such as a transaction to take the company private.

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We have entered into a standstill agreement pursuant to which Great Hill and its affiliates are permitted to acquire additional voting securities of our company in the future and may initiate and participate in any tender, takeover or exchange offer, other business combination or other transaction, such as taking our company private, any of which may be to the detriment of our shareholders.

On December 1, 2005, we and Great Hill Equity Partners II, which is one of the affiliates of Great Hill, entered into a Standstill Agreement with a term of five years, unless terminated earlier.

Pursuant to the Standstill Agreement, for a period of 14 months from the date of the Standstill Agreement (the Fourteen Month Period), Great Hill Equity Partners II agreed that it would not, without the prior written consent by us:

acquire or seek to acquire, directly or indirectly, ownership of any of our voting securities (or rights to acquire any of our class of securities or any subsidiary thereof) such that Great Hill Equity Partners II and its affiliates (the Great Hill Group) would beneficially own more than 29.9% of our total voting power (the Total Voting Power), which is defined as the aggregate number of votes which may be cast by holders of outstanding voting securities on a poll at a general meeting of ours taking into account any voting restrictions imposed by our Articles of Association, or take any action that would require us to make a public announcement regarding the foregoing under applicable law;

participate in any of the following with respect to us or our subsidiaries: (i) any tender, takeover or exchange offer or other business combination, (ii) any recapitalization, restructuring, liquidation, dissolution or other extraordinary transaction, or (iii) any solicitation of proxies or consents to vote any voting securities;

form, join or participate in a group as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, in connection with any of the foregoing;

seek to control our Board of Directors; and

enter into any arrangements with any third party with respect to any of the above.

After the expiration of the Fourteen Month Period, Great Hill Equity Partners II agreed that it would not acquire or seek to acquire beneficial ownership of any of our voting securities (or rights to acquire any class of our securities or any subsidiary thereof) or participate in any tender, takeover or exchange offer or other business combination, or any recapitalization, restructuring, dissolution or other extraordinary transaction if (i) prior to giving effect thereto, the Great Hill Group beneficially owns less than 60% of Total Voting Power and (ii) after giving effect, the Great Hill Group would beneficially own more than 29.9% of Total Voting Power.

Under the Standstill Agreement, Great Hill is permitted to, subject to the conditions of the Standstill Agreement, increase its holding of voting securities in our company after the expiration of the Fourteen Month Period, and after expiration of the Standstill Agreement, Great Hill may increase its share ownership without restriction. The Standstill Agreement is subject to the UK Code and the German Code as a result of the European Union Directive on Takeover Bids. Great Hill may participate in and initiate any tender, takeover or exchange offer, other business combination or other transaction, such as taking our company private, any of which may be to the detriment of our shareholders.

The European Union Directive on Takeover Bids and related laws of the United Kingdom and Germany could prevent a takeover that holders of our securities consider favourable and could also reduce the market price of our securities.

On May 20, 2006, the European Union Directive on Takeover Bids (the Takeover Directive) became effective. Pursuant to the Takeover Directive, since we have our registered office in the United Kingdom and our GDSs are traded in Germany on the Frankfurt Stock Exchange, we are subject to takeover regulations in both the United Kingdom (the UK Code) and Germany (the German Code). These regulations could delay, deter or prevent a change in control of our company. In addition, these regulations may discourage transactions that otherwise could provide for the payment of a premium over the prevailing market price of our securities to some holders of our securities. This is due to a Takeover Directive requirement that all holders of securities of the same class must be treated equally. As a

result, this also could limit the price that investors are willing to pay in the future for our securities. The mandatory offer requirement of the German Code and the UK Code prevents a bidder from accumulating a large position in the Company without extending an offer for 100% of the target s shares. Furthermore, where a bidder offers securities that are not admitted for trading on a regulated market in the European Union it must include a cash alternative and a bidder will also be required to offer a cash alternative if it has purchased for cash shares representing at least 5% of the voting rights of our company during a certain period of time. As a result, the Takeover Directive and the related UK Code and German Code could discourage potential takeover attempts and reduce the market price of our securities. For a further description of the Takeover Directive and applicable United Kingdom and German takeover regulations, see Description of Capital Shares Description of Ordinary Shares European Union Directive on Takeover Bids; United Kingdom and German Takeover Codes.

Most of our ordinary shares and ordinary shares issuable upon the exercise of our warrants and options are eligible for sale, which results in dilution and may cause the price of our ADSs to decrease.

If our shareholders sell a substantial number of our shares, including those represented by ADSs and GDSs, in the public market, the market price of our ADSs could fall. Our ordinary shares in the form of GDSs also trade on the Frankfurt Stock Exchange. We have filed a registration statement to register for sale in the United States all of our issued and outstanding ordinary shares, ordinary shares underlying all of our outstanding warrants and ordinary shares underlying all of the options held by our officers, directors and shareholders who own more than 10% of our issued and outstanding securities. This registration statement registers an aggregate of 33,263,996 ordinary shares and ordinary shares underlying warrants or options. In addition, we have filed a registration statement under the Securities Act of 1933, as amended, on Form S-8 covering all of the ordinary shares issuable upon exercise of our outstanding options and options available for future grant under our share option schemes. As of March 31, 2006, we had 4,722,145 ordinary shares underlying outstanding options and 14,303,705 ordinary shares underlying options available for future grant. Sales of ordinary shares by existing shareholders in the public market, or the availability of such ordinary shares for sale, could materially and adversely affect the market price of our securities.

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You may not be able to exercise your right to vote the ordinary shares underlying your ADSs.

Under the terms of the ADSs, you have a general right to direct the exercise of the votes on the ordinary shares underlying ADSs that you hold, subject to limitations on voting ordinary shares contained in our Memorandum of Association and Articles of Association, as amended. You may instruct the depositary bank, Bank of New York, to vote the ordinary shares underlying our ADSs, but only if we request Bank of New York to ask for your instructions. Otherwise, you will not be able to exercise your right to vote unless you withdraw the ordinary shares underlying the ADSs. However, you may not receive voting materials in time to ensure that you are able to instruct Bank of New York to vote your shares or receive sufficient notice of a shareholders meeting to permit you to withdraw your ordinary shares to allow you to cast your vote with respect to any specific matter. In addition, Bank of New York and its agents may not be able to timely send out your voting instructions or carry out your voting instructions in the manner you have instructed. As a result, you may not be able to exercise your right to vote, and you may lack recourse if your ordinary shares are not voted as you requested.

Your right or ability to transfer your ADSs may be limited in a number of circumstances.

Your ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

Our ordinary shares in the form of ADSs or GDSs are traded on more than one market and this may result in price variations.

Our ordinary shares are currently traded on the Frankfurt Stock Exchange in the form of GDSs and our ordinary shares are listed for trading on the American Stock Exchange in the form of ADSs. Trading in our ordinary shares in the form of ADSs or GDSs on these markets will be made in different currencies (dollars on the American Stock Exchange and euros on the Frankfurt Stock Exchange), and at different times (resulting from different time zones, different trading days and different public holidays in the U.S. and Germany). The trading prices of our ordinary shares in the form of ADSs or GDSs on these two markets may differ due to these and other factors. Any decrease in the trading price of our ordinary shares in the form of ADSs or GDSs on one of these markets could cause a decrease in the trading price of our ordinary shares in the form of ADSs or GDSs on the other market. Any difference in prices of our ordinary shares in the form of ADSs or GDSs on these two markets could create an arbitrage opportunity whereby an investor could take advantage of the price difference by trading between the markets, thereby potentially increasing the volatility of trading prices of our ADSs and having an adverse affect on the price of our ADSs.

If we offer any subscription rights to our shareholders, your right or ability to perform a sale, deposit, cancellation or transfer of any ADSs issued after exercise of rights might be restricted.

If we offer holders of our ordinary shares any rights to subscribe for additional shares or any other rights, the depositary may make these rights available to you after consultation with us. However, the depositary may allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them. In addition, U.S. securities laws may restrict the sale, deposit, cancellation and transfer of the ADSs issued after exercise of rights. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. In addition, under the deposit agreement, the depositary will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which the rights relate are either exempt from registration under the Securities Act with respect to all holders of ADSs, or are registered under the provisions of the Securities Act. We can give no assurance that we can establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, you may be unable to participate in our rights offerings, if any, and may experience dilution of your holdings as a result.

Investors may be subject to both United States and United Kingdom taxes.

Investors are strongly urged to consult with their tax advisors concerning the consequences of investing in our company by purchasing ADSs. Our ADSs are being sold in the United States, but we are incorporated under the laws of England and Wales. A U.S. holder of our ADSs will generally be treated as the beneficial owner of the underlying ordinary shares, as represented by ADSs, for purposes of U.S. and U.K. tax laws. Therefore, U.S. federal, state and local tax laws and U.K. tax laws will generally apply to ownership and transfer of our ADSs and the underlying ordinary shares. Tax laws of other jurisdictions may also apply.

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If you hold shares in the form of ADSs, you may have less access to information about our company and less opportunity to exercise your rights as a shareholder than if you held ordinary shares.

There are risks associated with holding our shares in the form of ADSs, since we are a public limited company incorporated under the laws of England and Wales. We are subject to the Companies Act 1985, as amended, our Memorandum and Articles of Association, and other aspects of English company law. The depositary, the Bank of New York and/or its various nominees, will appear in our records as the holder of all our shares represented by the ADSs and your rights as a holder of ADSs will be contained in the deposit agreement. Your rights as a holder of ADSs will differ in various ways from a shareholder s rights, and you may be affected in other ways, including:

- you may not be able to participate in rights offers or dividend alternatives if, in the discretion of the depositary, after consultation with us, it is unlawful or not practicable to do so;
- you may not receive certain copies of reports and information sent by us to the depositary and may have to go to the office of the depositary to inspect any reports issued; and
- the deposit agreement may be amended by us and the depositary, or may be terminated by us or the depositary, each with thirty (30) days notice to you and without your consent in a manner that could prejudice your rights, and the deposit agreement limits our obligations and liabilities and those of the depositary.

Your rights as a shareholder will be governed by English law and will differ from and may be inferior to the rights of shareholders under U.S. law.

We are a public limited company incorporated under the laws of England and Wales. Our corporate affairs are governed by our Memorandum and Articles of Association, by the Companies Act 1985, each as amended, and other common and statutory laws in England and Wales. The rights of shareholders to take action against the directors and actions by minority shareholders are to a large extent governed by the common law and statutory laws of England and Wales. These rights differ from the typical rights of shareholders in U.S. corporations. Facts that, under U.S. law, would entitle a shareholder in a U.S. corporation to claim damages may give rise to an alternative cause of action under English law entitling a shareholder in an English company to claim damages in an English court. However, this will not always be the case. For example, the rights of shareholders to bring proceedings against us or against our directors or officers in relation to public statements are different under English law than the civil liability provisions of the U.S. securities laws. In addition, shareholders of English companies may not have standing to initiate shareholder derivative actions in various courts, including before the federal courts of the United States. As a result, our public shareholders may face different considerations in protecting their interests in actions against our company, management, directors or our controlling shareholders, than would shareholders of a corporation incorporated in a jurisdiction in the United States, and our ability to protect our interests if we are harmed in a manner that would otherwise enable us to sue in a United States federal court, may be limited.

You may have difficulties enforcing, in actions brought in courts in jurisdictions located outside the United States, liabilities under the U.S. securities laws. In particular, if you sought to bring proceedings in England based on U.S. securities laws, the English court might consider:

- that it did not have jurisdiction;
- that it was not the appropriate forum for such proceedings;
- that, applying English conflict of laws rules, U.S. law (including U.S. securities laws) did not apply to the relationship between you and us or our directors and officers; and/or
- that the U.S. securities laws were of a public or penal nature and should not be enforced by the English court.

Alternatively, if you were to bring an action in a U.S. Court, and we were to bring a competing action in an English Court, the English Court may grant an order seeking to prohibit you from pursuing the action before the U.S. court.

You should also be aware that English law does not allow for any form of legal proceedings directly equivalent to the class action available in U.S. courts. In addition, awards of punitive damages (or their nearest English law equivalent), are rare in English courts.

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In addition, we are required by the Companies Act 1985 to prepare for each financial year audited accounts which comply with the requirements of that Act. These UK audited accounts are distributed to holders of our ordinary shares in advance of our annual shareholder meeting at which the UK audited accounts are voted on by our shareholders and are then filed with the Registrar of Companies for England and Wales. The UK audited accounts will be audited by an accounting firm eligible under UK statutory requirements, currently the UK firm Ernst & Young LLP. The UK audited accounts are likely to be materially different to the US GAAP financial statements which will be prepared in a form similar to those included within this prospectus and which will be filed with the US Securities and Exchange Commission. Our shareholders will not have an opportunity to vote on our US GAAP financial statements. Our ability to pay future dividends will be determined by reference to the distributable reserves shown by our UK audited accounts, and this may restrict our ability to pay such dividends.

You may have difficulty in effecting service of process or enforcing judgments obtained in the United States against one of our directors named in this prospectus who is not a resident of the United States.

Currently, one of our directors, Martial Chaillet, named in this prospectus is a resident of a country other than the United States. Furthermore, all or a substantial portion of his assets may be located outside the United States. As a result, it may not be possible for you to:

- effect service of process within the United States upon such director;
- enforce in U.S. courts judgments obtained against such director in the U.S. courts in any action, including actions under the civil liability provisions of U.S. securities laws; or
- enforce in U.S. courts judgments obtained against such director in courts of jurisdictions outside the United States in any action, including actions under the civil liability provisions of U.S. securities laws.

You may also have difficulties enforcing in courts outside the United States judgments obtained in the U.S. courts against any of our directors and some of the experts named in this prospectus or us (including actions under the civil liability provisions of the U.S. securities laws). In particular, there is doubt as to the enforceability in England of U.S. civil judgments predicated purely on U.S. securities laws. In any event, there is no system of reciprocal enforcement in England and Wales of judgments obtained in the U.S. courts. Accordingly, a judgment against any of those persons or us may only be enforced in England and Wales by the commencement of an action before the English court, seeking the recognition of the judgment of the U.S. court at common law in England. Judgment against any of those persons or us, as the case may be, may be granted by the English court without requiring the issues on the merits in the U.S. litigation to be reopened on the basis that those matters have already been decided by the U.S. court. To recognize a U.S. court Judgment, the English court must be satisfied that:

- that the judgment is final and conclusive;
- that the U.S. court had jurisdiction (as a matter of English law);
- that the U.S. judgment is not impeachable for fraud and is not contrary to English rules of natural justice;
- that the enforcement of the judgment will not be contrary to public policy or statute in England;
- that the judgment is for a liquidated sum;
- that the English proceedings were commenced within the relevant limitation period;
- that the judgment is not directly or indirectly for the payment of taxes or other charges of a like nature or a fine or penalty;
- that the judgment remains valid and enforceable in the court in which it was obtained unless and until it is stayed or set aside; and

that, before the date on which the U.S. court gave judgment, the issues in question had not been the subject of a final judgment of an English court or of a court of another jurisdiction whose judgment is enforceable in England.

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We have never paid any dividend and we do not intend to pay dividends in the foreseeable future.

To date, we have not declared or paid any cash dividends on our ordinary shares and currently intend to retain any future earnings for funding growth. We do not anticipate paying any dividends in the foreseeable future. Moreover, companies incorporated under the laws of England and Wales cannot pay dividends unless they have distributable profits as defined in the Companies Act 1985 as amended. As a result, you should not rely on an investment in our shares if you require dividend income. Capital appreciation, if any, of our shares may be your sole source of gain for the foreseeable future.

Currency fluctuations may adversely affect the price of the ADSs relative to the price of our GDSs.

The price of our GDSs is quoted in euros. Movements in the euro/ U.S. dollar exchange rate may adversely affect the U.S. dollar price of our ADSs and the U.S. dollar equivalent of the price of our GDSs. For example, if the euro weakens against the U.S. dollar, the U.S. dollar price of the ADSs could decline, even if the price of our GDSs in euros increases or remains unchanged.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

- our significant operating losses and uncertainties relating to our ability to generate positive cash flow and operating profits in the future;
- difficulty in evaluating our future prospects based on our limited operating history and relatively new business model;
- our ability to attract members, convert members into paying subscribers and retain our paying subscribers, in addition to maintain paying subscribers;
- the highly competitive nature of our business;
- our ability to keep pace with rapid technological change;
- the strength of our existing brands and our ability to maintain and enhance those brands;
- our ability to effectively manage our growth;
- our dependence upon the telecommunications infrastructure and our networking hardware and software infrastructure;
- risks related to our recent accounting restatements;
- uncertainties relating to potential acquisitions of companies;
- the volatility of the price of our ADSs after this offering;

the strain on our resources and management team of being a public company in the United States;

the ability of our principal shareholders to exercise significant influence over our company; and

other factors referenced in this prospectus and other reports.

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You should not rely upon forward-looking statements as predictions of future events. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assume responsibility for the accuracy and completeness of the forward-looking statements. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this prospectus to conform these statements to actual results or to changes in our expectations.

You should read this prospectus, and the documents that we reference in this prospectus and have filed as exhibits to the related registration statement with the Securities and Exchange Commission, completely and with the understanding that our actual future results, levels of activity, performance and achievements may materially differ from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

USE OF PROCEEDS

We will not receive any proceeds from the sale of ordinary shares in the form of ADSs by the selling security holders listed in this prospectus and any prospectus supplement, except for funds received from the exercise of warrants and options held by selling security holders, if and when exercised. We plan to use the net proceeds received from the exercise of any warrants and options for working capital and general corporate purposes. The actual allocation of proceeds realized from the exercise of these securities will depend upon the amount and timing of such exercises, our operating revenues and cash position at such time and our working capital requirements. There can be no assurances that any of the outstanding warrants and options will be exercised. The total maximum proceeds possible from the exercise of options and warrants at March 31, 2006 was approximately $27.2 million and $1.1 million, respectively.

RESCISSION OFFER

Under our 2000 Option Scheme, we granted options to purchase ordinary shares to certain of our employees, directors and consultants. California state securities laws generally require qualification for the offer and sale of securities subject to California law. Under California law, the grant of an option constitutes a sale of the underlying shares at the time of the option grant and not at the exercise of the option. Our option grants were not qualified and may not have been exempt from qualification under California state securities laws. As a result, we may have potential liability to those employees, directors and consultants to whom we granted options under the 2000 Option Scheme. In order to address that issue, we may elect to make a rescission offer to the holders of outstanding options under the 2000 Option Scheme to give them the opportunity to rescind the grant of their options.

As of March 31, 2006, assuming every eligible optionee were to accept a rescission offer, we estimate the total cost to us to complete the rescission would be approximately $1.9 million including statutory interest at 7% per annum. These amounts reflect the costs of offering to rescind the issuance of the outstanding options by paying an amount equal to 20% of the aggregate exercise price for the entire option, which we believe would comply with California state securities laws.

In addition, issuances of securities upon exercise of options granted under our 2000 Option Scheme may not have been exempt from registration and qualification under California state securities laws as a result of the option grants themselves, but also may not have been exempt from registration under federal securities laws. Federal securities laws prohibit the offer or sale of securities unless the sales are registered or exempt from registration. The issuances of ordinary shares upon the exercise of our options were not registered and may not have been exempt from registration under California state and federal securities laws. As a result, we may have potential liability to those employees, directors and consultants to whom we issued securities upon the exercise of these options. In order to address that issue, we may elect to make a rescission offer to those persons who exercised all, or a portion, of those options and continue to hold the shares issued upon exercise, to give them the opportunity to rescind the issuance of those shares (Option Shares).

As of March 31, 2006, assuming every eligible person that continues to hold the securities issued upon exercise of options granted under the 2000 Option Scheme were to accept a rescission offer, we estimate the total cost to us to complete the rescission would be approximately $6.1 million including statutory interest at 7% per annum, accrued since the date of exercise of the options. These amounts are calculated by reference to the acquisition price of the Option Shares.

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For the purposes of English company law, a rescission offer in respect of our Option Shares would take the form of a purchase by our company of the relevant Option Shares. The Companies Act 1985 (Companies Act) provides that we may only purchase our own shares using our distributable profits (as defined by the Companies Act), also known as distributable reserves (Distributable Reserves), or the proceeds from the issuance of new shares for that purpose. When we issue shares at a value which represents a premium over their nominal value, we are required by the Companies Act to transfer the premium (subject to certain limited exceptions) to a share premium account. Under the Companies Act, our ability to utilize our share premium account is very limited and does not include the payment of dividends. However, in accordance with a procedure set out in the Companies Act, we have obtained approval from our shareholders and from the High Court of Justice in England and Wales (the Court) to reduce our share premium account by US$44,000,000 with effect from December 8, 2005 (the Effective Date) in order to reduce or eliminate the deficit on our profit and loss account, which had arisen as a result of previous accumulated losses. This will enable profits, if any, arising after December 31, 2005 to give rise to Distributable Reserves, which we could use to purchase our own Shares pursuant to a rescission offer. In connection with the approval from the Court, we have given an undertaking to the Court for the protection of our creditors, which requires us to transfer to a non-distributable reserve (the Special Reserve) the amount (if any) by which the deficit on our profit and loss account at December 31, 2005 falls short of the amount of the reduction (being US$44,000,000), and any profits made by us or any of our subsidiaries prior to December 31, 2005, until our non-consenting creditors at the Effective Date (Non-Consenting Creditors) have been paid off. In other words, if there is a surplus on our profit and loss account after application of the $44.0 million from the share premium reduction and any additional profits made by us prior to December 31, 2005 (Special Reserve Surplus), then we would not be permitted to use the Special Reserve Surplus to purchase our own shares until all Non-Consenting Creditors are paid. However, we do not currently expect that any sums will be required to be transferred to the Special Reserve since we do not anticipate that there will be a surplus on our profit and loss account after application of the share premium reduction and any profits made before December 31, 2005, although this will need to be confirmed when we prepare our audited UK GAAP profit and loss account and balance sheet for the year ended December 31, 2005.

Although we believe we have substantially reduced our accumulated profit and loss account deficit pursuant to the Companies Act, we are not permitted to purchase any of our own shares until we have sufficient Distributable Reserves in order to fund such purchases of our own shares or sufficient proceeds of a new issuance of shares made for the purposes of such purchases of our own shares. As of March 31, 2006, if every eligible person holding Option Shares were to accept the rescission offer, we estimate that the amount we would need in Distributable Reserves is approximately $6.1 million. After application of the share premium reduction to the accumulated profit and loss account deficit, we anticipate that the deficit will be substantially reduced; however, we will not have any Distributable Reserves, which we will accumulate to the extent that we make any distributable profits in the future. We do not intend to make a rescission offer until we have the Distributable Reserves required to make a rescission offer of the Option Shares.

The undertaking to the Court also prevents us from making any distribution to shareholders, or redeeming or purchasing our own shares, until we have obtained approval at a shareholders general meeting of our audited UK GAAP balance sheet for the year ended December 31, 2005. It is likely that our UK GAAP balance sheet for the year ended December 31, 2005 will be ready for approval by shareholders on or about May 31, 2006. The share premium reduction will only be reflected on our UK GAAP balance sheet for the purposes of UK law. It will not be reflected on our US GAAP balance sheet.

Any purchase of the Option Shares pursuant to a rescission offer would not only need to be made out of Distributable Reserves, but would also require shareholder approval given in accordance with the requirements of the Companies Act.

Such approval must be given by resolution passed with a majority of at least 75% of the votes cast on the resolution (excluding votes carried by the Option Shares proposed to be purchased), having made a copy of the contract for the purchase of the Option Shares available for inspection both at our registered office for at least 15 days prior to the date of the meeting to approve the purchase and at the meeting itself. Once a purchase has been completed, we would be subject to further disclosure obligations in relation to information about the purchase.

We do not intend to seek shareholder approval for a purchase of Option Shares until we have made a rescission offer which has been accepted by any one or more shareholders and it has become necessary to seek such approval.

In summary, in order to effectuate a rescission offer and repurchase any of our own shares upon any acceptances of the rescission offer, we must satisfy the following conditions: (1) obtain shareholder approval of our audited UK GAAP balance sheet for the year ended December 31, 2005; (2) obtain additional shareholder approval, as further discussed above, of any acceptances of the rescission offer to repurchase shares; and (3) have sufficient Distributable Reserves to repurchase shares subject to the rescission offer.

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We have terminated and no longer grant options under our 2000 Option Scheme, but options previously granted under 2000 Option Scheme remain in full force and effect. We filed a registration statement on Form S-8 to cover the issuance of future shares upon exercise of presently unexercised options under the 2000 Option Scheme. However, none of the shares (including shares underlying unexercised options) registered on the Form S-8 will be eligible for resale if they are tendered as part of the rescission offer.

PRICE RANGE OF GLOBAL DEPOSITARY SHARES

Our ordinary shares in the form of ADSs were approved in February 2006 for trading on the American Stock Exchange under the trading symbol LOV. The last reported sales price of the ADSs on the American Stock Exchange on June 6, 2006 was $5.95 per ADS. As of the date of this prospectus, an established public trading market for our ADSs has not yet developed. Our ordinary shares in the form of GDSs currently trade on the Frankfurt Stock Exchange under the symbol MHJG . The following table summarizes the high and low sales prices of our GDSs in euros as reported by the Frankfurt Stock Exchange for the periods noted below, and as translated into U.S. dollars at the currency exchange rate in effect on the date the price was reported on the Frankfurt Stock Exchange. The currency exchange rate is based on the average bid and ask exchange price as reported by OANDA for such date.

	High		Low	
Year ended December 31, 2004				
First Quarter	11.85	$14.68	4.20	$5.39
Second Quarter	9.85	$11.79	6.30	$7.63
Third Quarter	8.00	$ 9.62	2.85	$3.49
Fourth Quarter	7.33	$ 9.68	4.75	$6.06
Year ended December 31, 2005				
First Quarter	8.25	$10.66	6.16	$8.02
Second Quarter	8.00	$10.37	5.26	$6.47
Third Quarter	7.50	$ 9.28	5.25	$6.85
Fourth Quarter	6.29	$ 7.50	4.45	$5.22
Year ended December 31, 2006				
First Quarter	6.48	$ 7.78	4.90	$5.90
Second Quarter (through June 7, 2006)	5.42	$ 6.58	4.25	$5.47

The last reported sales price of our GDSs on the Frankfurt Stock Exchange on June 7, 2006 was 4.51 per GDS, or $5.77 per GDS.

As of May 1, 2006, there were approximately 138 holders of record of our shares, including each account held by our depository and its record holder. These figures do not include beneficial owners who hold shares in nominee name.

DIVIDEND POLICY

We have never declared or paid cash dividends on our ordinary shares. We do not anticipate paying any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business.

Under English law, any payment of dividends would be subject to the Companies Act 1985, as amended, which requires that all dividends be approved by our board of directors and, in some cases, our shareholders. Moreover, under English law, we may pay dividends on our shares only out of profits available for distribution determined in accordance with the Companies Act 1985, as amended, and accounting principles generally accepted in the United Kingdom, which differ in some respects from U.S. GAAP. We also may incur indebtedness in the future that may prohibit or effectively restrict the payment of dividends on our ordinary shares. Any future determination related to our dividend policy will be made at the discretion of our Board of Directors. In the event that dividends are paid in the future, holders of the ADSs will be entitled to receive payments in U.S. dollars in respect of dividends on the underlying shares in accordance with the deposit agreement. See Description of Share Capital Description of Ordinary Shares Dividends and Description of Share Capital Description of American Depositary Shares Dividends and Distributions.

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CAPITALIZATION

The following table summarizes our capitalization as of March 31, 2006.

You should read this table in conjunction with Selected Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

	March 31, 2006 (in thousands except per share data)
Notes payable, including current portion	$ 5,597
Shares subject to rescission	6,089
Shareholders equity:	
Ordinary shares, £0.01 par value, 80,000,000 shares authorized; 30,241,496 shares issued and outstanding	488
Additional paid-in-capital	65,547
Accumulated other comprehensive loss	(386)
Accumulated deficit	(44,363)
Total shareholders equity	21,286
Total capitalization	$ 32,972

The number of our ordinary shares shown above is based on 30,296,396 shares outstanding as of March 31, 2006. This information excludes:

- 4,722,145 ordinary shares issuable upon the exercise of outstanding options as of March 31, 2006, with exercise prices ranging from $0.87 to $9.53 per shar e and a weighted average exercise price of $5.76 per share;
- 430,000 ordinary shares issuable upon the exercise of warrants outstanding as of March 31, 2006, with an exercise price of $2.51 per share; and
- 14,303,705 ordinary shares available for issuance under our share option schemes.

DILUTION

Since this offering is being made solely by the selling shareholders and none of the proceeds will be paid to us, except for funds received from the exercise of warrants and options held by selling shareholders, if and when exercised, our net tangible book value per share will not be affected by this offering.

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SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth our selected consolidated financial data. The data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements, related notes, and other financial information included herein. The following selected consolidated statement of operations data and balance sheet data for the three months ended March 31, 2006 and 2005 are derived from our unaudited consolidated financial statements presented elsewhere in this registration statement. The following selected consolidated statement of operations data for each of the three years in the period ended December 31, 2005, and the selected consolidated balance sheet data as of December 31, 2004 and 2003, are derived from the audited consolidated financial statements of our company included elsewhere in this prospectus. The consolidated statement of operations data for the year ended December 31, 2001 and the selected consolidated balance sheet data as of December 31, 2002 and 2001 are derived from the audited consolidated financial statements of our company not included in this prospectus. Our ordinary shares in the form of GDSs currently trade on the Frankfurt Stock Exchange, in Germany. Pursuant to the laws governing this exchange, we publicly reported our quarterly and annual operating results. On April 28, 2004, we publicly announced that we had discovered accounting inaccuracies in previously reported financial statements. As a result, following consultation with our new auditors, we restated our financial statements for the first three quarters of 2003 and for each of the years ended December 31, 2002 and 2001 to correct inappropriate accounting entries. You should therefore not rely on data derived from such financial statements. The historical results are not necessarily indicative of results to be expected in any future period.

	Three Months Ended March 31,		Years ended December 31,(1)				
	2006	2005	2005	2004(6)	2003(6)	2002	2001
	(unaudited)		(in thousands, except per share amounts)				
Consolidated Statements of Operations Data:							
Net revenues	$ 16,805	$ 16,526	$ 65,511	$ 65,052	$ 36,941	$ 16,352	$ 10,434
Direct marketing expenses	5,657	5,228	24,411	31,240	18,395	5,396	2,044
Contribution margin	11,148	11,298	41,100	33,812	18,546	10,956	8,390
Operating expenses:*							
Indirect marketing	366	265	1,208	2,607	986	403	540
Customer service	908	577	2,827	3,379	2,536	1,207	641
Technical operations	2,230	1,402	7,546	7,184	4,481	1,587	1,772
Product development	845	830	4,118	2,013	959	603	359
General and administrative	5,632	6,079	25,074	29,253(2)	18,537(2)	7,996	5,496
Amortization of intangible assets other than goodwill	239	110	1,085	860	555	524	2,137
Impairment of long-lived assets			105	208	1,532		3,997
Total operating expenses	10,220	9,263	41,963	45,504	29,586	12,320	14,942
Operating (loss)	928	2,035	(863)	(11,692)	(11,040)	(1,364)	(6,552)
	39	(24)	711	(66)	(188)	(840)	1,627

Interest (income) and other expenses, net							
(Loss) before income taxes	889	2,059	(1,574)	(11,626)	(10,852)	(524)	(8,179)
Provision for income taxes	179	72	(136)	1			
Net Income (loss)	710	1,987	(1,438)	(11,627)	(10,852)	(524)	(8,179)
Net Income (loss) per share basic (3)	0.02	0.08	(0.06)	(0.51)	(0.57)	(0.03)	(0.47)
Net Income (loss) per share diluted (3)	0.02	0.07	NA	NA	NA	NA	NA
Weighted average shares outstanding basic (3)	30,266	25,177	26,105	22,667	18,970	18,460	17,460
Weighted average shares outstanding diluted (3)	31,258	29,236	NA	NA	NA	NA	NA
Other Financial Data:							
Depreciation	817	848	3,624	3,065	1,441	874	544
Additional Information:							
Average paying subscribers(4)	244,300	222,600	220,000	226,100	125,800	58,700	

	Three Months Ended March 31,						
	2006	**2005**	**2005**	**2004(6)**	**2003(6)**	**2002**	**2001**
	(unaudited)						
* Operating expenses include share-based compensation as follows:							
Indirect marketing	13		24	156	79		
Customer service	23		44				
Technical operations	174		338	22	140		
Product development	118		248				
General and administrative	1,043	87	2,063	1,526	1,652		

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	March 31, 2006 (unaudited)	2005	2004	December 31, 2003	2002	2001
Consolidated Balance Sheet Data:						
Cash, cash equivalents and marketable securities	15,833	17,292	7,423	5,815	7,755	7,569
Total assets	47,176	48,620	27,359	16,969	17,461	16,352
Deferred revenue	5,676	4,991	3,933	3,232	1,535	993
Capital lease obligations and notes payable	5,728	10,830	1,873	487		
Total liabilities	19,801	23,437	16,872	11,659	3,998	3,238
Shares subject to rescission(5)	6,089	6,089	3,819			
Accumulated deficit	(44,303)	(45,073)	(43,635)	(32,008)	(21,156)	(20,632)
Total shareholders equity	21,286	19,094	6,668	5,310	13,463	13,114

(1) Refer to Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of certain asset and business acquisitions.

(2) In 2004, general and administrative expenses included an expense of approximately $2.4 million related to an employee severance, $2.1 million related to the United States initial public

offering of MatchNet, Inc. that was planned for mid-2004, but which was withdrawn shortly after the related registration statement was filed in the third quarter of 2004, as well as one legal settlement resulting in the recognition of $900,000 in expenses in the third quarter and two legal settlements resulting in the recognition of $2.1 million in expenses in the fourth quarter of 2004. In 2003, general and administrative expenses included a charge of $1.7 million primarily related to a settlement with Comdisco.

(3) For information regarding the computation of per share amounts, refer to note 1 of our consolidated financial statements.

(4) 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. Additionally, refer to Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of business metrics we use to evaluate our business. We did not track data for the year ended December 31, 2001 sufficient to accurately set forth the number of average paying subscribers for the respective periods.

(5) Under our 2000 Executive Share Option Scheme

(2000 Option Scheme), we granted options to purchase ordinary shares to certain of our employees, directors and consultants. The issuances of securities upon exercise of options granted under our 2000 Option Scheme may not have been exempt from registration and qualification under federal and California state securities laws, and as a result, we may have potential liability to those employees, directors and consultants to whom we issued securities upon the exercise of these options. In order to address that issue, we may elect to make a rescission offer to those persons who exercised all, or a portion, of those options and continue to hold the shares issued upon exercise, to give them the opportunity to rescind the issuance of

those shares. However, it is the Securities and Exchange Commission s position that a rescission offer will not bar or extinguish any liability under the Securities Act of 1933 with respect to these options and shares, nor will a rescission offer extinguish a holder s right to rescind the issuance of securities that were not registered or exempt from the registration requirements under the Securities Act of 1933. As of March 31, 2006, assuming every eligible person that continues to hold the securities issued upon exercise of options granted under the 2000 Option Scheme were to accept a rescission offer, we estimate the total cost to us to complete the rescission would be approximately $6.1 million including statutory interest at 7% per

annum, accrued since the date of exercise of the options. The rescission acquisition price is calculated as equal to the original exercise price paid by the optionee to our company upon exercise of their option.

(6) For the purposes of this and all future filings, prior period classification of share-based compensation was reclassified to conform to current period classification.

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PRO FORMA COMBINED FINANCIAL DATA

The following unaudited pro forma combined financial information gives effect to the acquisition on May 19, 2005, by Spark Networks plc (formerly MatchNet plc) of MingleMatch, Inc., a corporation based in Provo, Utah. The purchase price for the acquisition was $12 million in cash, which will be paid over 12 months (as discussed further in note 9 to our consolidated financial statements, notes payable), as well as 150,000 shares of the Company s ordinary shares which, on the date of the acquisition, carried a value of approximately $1.2 million.

The unaudited pro forma combined financial information is for illustrative purposes only and reflects certain estimates and assumptions. These unaudited pro forma combined financial statements should be read in conjunction with the accompanying notes, our historical consolidated financial statements and MingleMatch s historical financial statements, including the notes thereto, and Management s Discussion and Analysis of Financial Condition and Results of Operations, all of which are included elsewhere in this prospectus.

The pro forma combined statements of operation for the years ended December 31, 2005 gave effect to the acquisition of MingleMatch, Inc. as if it had been completed on January 1, 2005. Our combined financial statements include the results of operations of MingleMatch, Inc. from its acquisition date May 19, 2005 to December 31, 2005. The MingleMatch column for the year ended December 31, 2005 includes MingleMatch activity for the period prior to its acquisition date from January 1, 2005 to May 18, 2005. The pro forma combined financial statements are not necessarily indicative of operating results which would have been achieved had the foregoing transaction actually been completed at the beginning of the subject periods and should not be construed as representative of future operating results.

	Year ended December 31, 2005			
	Spark Networks	Mingle Match	Pro Forma Adjustments	Pro Forma Consolidated
	(in thousands, except per share amounts)			
Net revenues	$ 65,511	$ 1,453	$	$ 66,964
Direct marketing expenses	24,411	741		25,152
Contribution margin	41,100	712		41,812
Operating expenses:				
Indirect marketing	1,208	79		1,287
Customer service	2,827	147		2,974
Technical operations	7,546	350		7,896
Product development	4,118	113		4,231
General and administrative (excluding share-based compensation)	25,074	986		26,060
Amortization of intangible assets other than goodwill	1,085	2	313(1)	1,400
Impairment of long lived assets	105			105
Total operating expenses	41,963	1,677	313	43,953
Operating (loss) income	(863)	(965)	(313)	(2,141)
Interest (income) and other expenses, net	711	(209)		502
Pre-tax (loss)	(1,574)	(756)	(313)	(2,643)
Income taxes	(136)			(136)
Net (loss)	$ (1,438)	$ (756)	$ (313)	$ (2,507)

Net (loss) income per ordinary share basic and diluted	(0.06)	(0.10)
Weighted average ordinary shares outstanding basic and diluted	26,105	26,105

(1) Represents amortization of intangible assets that would have occurred if the purchase had happened on January 1, 2005.

	Stub Period Ended May 18, 2005
Domain Names	$ 297
Subscriber Discounts	
Developed Software	16
Total Amortization	313

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

	At May 19, 2005
	(In thousands)
Current assets (including cash acquired of $221)	$ 295
Property and equipment, net	162
Goodwill	9,742
Domain names and databases	4,655
Total assets acquired	14,854
Current liabilities	41
Deferred tax liability	1,823
Net assets acquired	$ 12,990

Of the $4,655,000 of acquired intangible assets, $2,360,000 was assigned to member databases and will be amortized over three years, $370,000 was assigned to subscriber databases which will be amortized over three months, $205,000 was assigned to developed software which will be amortized over five years, and $1,720,000 was assigned to domain names which are not subject to amortization.

Of the $9,742,000 of acquired goodwill, $400,000 was assigned to assembled workforce and $1,823,000 was as a result of recording a deferred tax liability resulting from differences between tax and book bases as proscribed by SFAS 109.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited and audited consolidated financial statements and the related notes thereto included elsewhere in this prospectus.

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

General

We are a public limited company incorporated under the laws of England and Wales and our ordinary shares in the form of GDSs currently trade on the Frankfurt Stock Exchange and in the form of ADSs on the American Stock Exchange. We are a leading provider of online personals services in the United States and internationally. Our web sites enable adults to meet online and participate in a community, become friends, date, form a long-term relationship or marry.

Our revenues have grown from $659,000 in 1999 to $65.5 million in 2005. For the three months ended March 31, 2006, we had approximately 244,300 average paying subscribers, representing an increase of 9.7% from the same period in 2005. We define a member as an individual who has posted a personal profile during the immediately preceding 12 months or an individual who has previously posted a personal profile and has subsequently logged on to

one of our web sites at least once in the preceding 12 months. Paying subscribers are defined as individuals who have paid a monthly fee for access to communication and web site features beyond those provided to our members, and average paying subscribers for each month are calculated as the sum of the paying subscribers at the beginning and the end of the month, divided by two. Our key web sites are JDate.com, which targets the Jewish singles community in the United States, at a current monthly subscription fee of $34.95 and AmericanSingles.com, which targets the U.S. mainstream online singles community, at a current monthly subscription fee of $29.99. Our subscription fees are charged on a monthly basis, with discounts for longer-term subscriptions ranging from three to twelve months. Longer-term subscriptions are charged up-front and we recognize revenue over the terms of such subscriptions.

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We have grown both internally and through acquisitions of entities, and selected assets of entities, offering online personals services and related businesses. As a result of each of these acquisitions, we have been able to expand and cross-promote into vertical affinity markets, combine the target entity s existing database of online personals customers into one of our web sites databases, with the goal of attracting new members to our web sites, retaining as many of them as possible and converting them into paying subscribers. Through our business acquisitions, we have expanded into new markets, leveraged and enhanced our existing brands to improve our position within new markets, and gained valuable intellectual property. During the last three years, we made the following acquisitions:

In May 2005, we acquired MingleMatch, a company that operates religious, ethnic, special interest and geographically targeted online singles communities. The acquisition of MingleMatch fits with our strategy of creating affinity-focused online personals that provide quality experiences for our members. We expect that our purchase of MingleMatch will allow for numerous cost savings and revenue synergies. Expected cost savings include savings from cost reductions in customer service and marketing, where we plan to be able to market to existing members of our other web sites, particularly AmericanSingles. Expected revenue synergies include cross-promotion and bundled subscription opportunities with members of our other web sites, particularly AmericanSingles.

In September 2004, we purchased a 20% equity interest, with an option to acquire the remaining interest, in Playahead AB, which was formerly known as Duplo AB, an online provider of social networking products and services in Sweden, with the intent of expanding into new markets and strengthening our existing brands.

In January 2004, we purchased Point Match Ltd., a competitor of JDate.co.il in Israel.

Our future performance will depend on many factors, including:

continued acceptance of online personals services;

our ability to attract a large number of new members and paying subscribers, and retain those members and paying subscribers;

our ability to increase brand awareness, both domestically and internationally;

our ability to sustain and, when possible, increase subscription fees for our services; and

our ability to introduce new targeted web sites, affiliate programs, fee-based services and advertising as additional sources of revenues.

Our ability to compete effectively will depend on the timely introduction and performance of our future web sites, services and features, the ability to address the needs of our members and paying subscribers and the ability to respond to web sites, services and features introduced by competitors. To address this challenge, we have invested and will continue to invest existing personnel resources, namely Internet engineers and programmers, in order to enhance our existing services and introduce new services, which may include new web sites as well as new features and functions designed to increase the probability of communication among our members and paying su