

SPARK NETWORKS INC  
Form 10-Q  
November 12, 2010  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2010

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-32750

**SPARK NETWORKS, INC.**

*(Exact name of registrant as specified in its charter)*

**DELAWARE**  
*(State or other jurisdiction of incorporation or organization)*

**20-8901733**  
*(I.R.S. Employer Identification No.)*

**8383 Wilshire Boulevard, Suite 800**

**Beverly Hills, California**  
*(Address of principal executive offices)*

**90211**  
*(Zip Code)*

**(323) 658-3000**

*(Registrant's telephone number, including area code)*

Not Applicable.

*(Former name, former address and former fiscal year, if changed since last report)*

## Edgar Filing: SPARK NETWORKS INC - Form 10-Q

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller-Reporting Company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The registrant had 20,587,336 shares of common stock, par value \$0.001 per share, outstanding as of November 11, 2010.

**Table of Contents**

**SPARK NETWORKS, INC.**

Table of Contents to Quarterly Report on Form 10-Q

**PART I. FINANCIAL INFORMATION**

Item 1.	<u>Financial Statements</u>	3
	<u>Consolidated Balance Sheets at September 30, 2010 (unaudited) and December 31, 2009</u>	3
	<u>Unaudited Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and 2009</u>	4
	<u>Unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009</u>	5
	<u>Unaudited Notes to Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	20
Item 4.	<u>Controls and Procedures</u>	20

**PART II. OTHER INFORMATION**

Item 1.	<u>Legal Proceedings</u>	21
Item		
1A.	<u>Risk Factors</u>	21
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	21
Item 3.	<u>Defaults upon Senior Securities</u>	21
Item 4.	<u>Reserved</u>	21
Item 5.	<u>Other Information</u>	21
Item 6.	<u>Exhibits</u>	22
	<u>Signatures</u>	23
	Exhibit 31.1	
	Exhibit 31.2	
	Exhibit 32.1	

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****SPARK NETWORKS, INC.****CONSOLIDATED BALANCE SHEETS****(in thousands, except share data)**

	September 30, 2010 (unaudited)	December 31, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 12,704	\$ 6,223
Restricted cash	607	681
Accounts receivable	694	684
Deferred tax asset - current	219	221
Prepaid expenses and other	496	853
Total current assets	14,720	8,662
Property and equipment, net	2,497	2,277
Goodwill	8,945	8,758
Intangible assets, net	3,289	3,586
Deferred tax asset - non-current	4,708	4,707
Deposits and other assets	295	1,866
Total assets	\$ 34,454	\$ 29,856
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 869	\$ 1,415
Accrued liabilities	5,198	4,232
Deferred revenue	3,899	4,244
Total current liabilities	9,966	9,891
Deferred tax liability	770	663
Other liabilities - non-current	997	978
Total liabilities	11,733	11,532
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Authorized capital stock consists of 100,000,000 shares of common stock, \$0.001 par value; issued and outstanding 20,587,336 and 20,581,544 at September 30, 2010 and December 31, 2009, respectively:		
	21	21
Additional paid-in-capital	50,071	48,813
Accumulated other comprehensive income	699	638
Accumulated deficit	(28,070)	(31,148)

Edgar Filing: SPARK NETWORKS INC - Form 10-Q

Total stockholders' equity	22,721	18,324
Total liabilities and stockholders' equity	\$ 34,454	\$ 29,856

**See accompanying notes.**

**Table of Contents****SPARK NETWORKS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited, in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue	\$ 9,916	\$ 11,058	\$ 30,742	\$ 34,332
Cost and expenses:				
Cost of revenue (exclusive of depreciation shown separately below)	3,206	3,849	9,747	11,254
Sales and marketing	774	845	2,708	2,603
Customer service	403	450	1,181	1,432
Technical operations	252	342	930	1,128
Development	773	899	2,332	3,221
General and administrative	2,316	2,311	7,641	7,542
Depreciation	242	236	699	637
Amortization of intangible assets	98	127	324	498
Impairment of goodwill, long-lived assets and other assets			121	880
Total cost and expenses	\$ 8,064	\$ 9,059	\$ 25,683	\$ 29,195
Operating income	1,852	1,999	5,059	5,137
Interest expense (income) and other, net	(182)	(44)	18	(1,437)
Income before income taxes	2,034	2,043	5,041	6,574
Provision for income taxes	808	1,036	1,963	3,370
Net income	\$ 1,226	\$ 1,007	\$ 3,078	\$ 3,204
Net income per share basic and diluted	\$ 0.06	\$ 0.05	\$ 0.15	\$ 0.16
Weighted average shares outstanding basic	20,587	20,582	20,585	20,566
Weighted average shares outstanding diluted	20,590	20,582	20,588	20,574

Prior period amounts have been reclassified to conform to current period presentation and include stock-based compensation as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Cost of revenue	\$ 3	\$ 2	\$ 8	\$ 12
Sales and marketing	39	44	198	134
Customer service	0	2	1	9
Technical operations	30	37	134	117
Development	14	22	42	84
General and administrative	172	162	857	506

See accompanying notes.

**Table of Contents****SPARK NETWORKS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited, in thousands)**

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 3,078	\$ 3,204
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,023	1,135
Foreign exchange gain on intercompany loan	(129)	(49)
Income from asset received from legal judgment		(1,742)
Impairment of goodwill and other intangibles	121	880
Stock-based compensation	1,240	862
Deferred taxes	108	436
Other	(13)	142
Changes in operating assets and liabilities:		
Accounts receivable	(10)	203
Restricted cash	74	118
Prepaid expenses and other assets	386	1,115
Accounts payable and accrued liabilities	419	(678)
Deferred revenue	(345)	537
<b>Net cash provided by operating activities</b>	<b>5,952</b>	<b>6,163</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(1,023)	(1,083)
Purchases of intangible assets	(25)	(32)
Cash paid in acquisition of business, net of cash acquired		(770)
Sale of property and other assets	1,560	
<b>Net cash provided by (used in) investing activities</b>	<b>512</b>	<b>(1,885)</b>
<b>Cash flows from financing activities:</b>		
Payment on deferred financing costs		(21)
Payment on borrowing on revolving credit facility		(4,000)
Proceeds from issuance of common stock	17	30
<b>Net cash provided by (used in) financing activities</b>	<b>17</b>	<b>(3,991)</b>
<b>Net increase in cash</b>	<b>6,481</b>	<b>287</b>
Cash and cash equivalents at beginning of period	6,223	7,417
<b>Cash and cash equivalents at end of period</b>	<b>\$ 12,704</b>	<b>\$ 7,704</b>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$	\$ 142
Cash paid for income taxes	\$ 294	\$ 811

See accompanying notes.





**Table of Contents**

**SPARK NETWORKS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**1. The Company and Summary of Significant Accounting Policies**

***The Company***

The common stock of Spark Networks, Inc., a Delaware corporation (the "Company"), is traded on the NYSE Amex. The Company and its consolidated subsidiaries provide online personals services in the United States and internationally, whereby adults are able to post information about themselves ("profiles") on the Company's Web sites and search and contact other individuals who have posted profiles.

Membership to the Company's online services, which includes the posting of a personal profile and photos, and access to its database of profiles, is free. The Company typically charges a subscription fee for varying subscription lengths (typically, one, three, six and twelve months) to members, allowing them to initiate communication with other members and subscribers utilizing the Company's onsite communication tools, including anonymous email, instant messenger, chat rooms and message boards. For most of the Company's services, two-way communications through the Company's email platform can only take place between paying subscribers.

The Company has evaluated all subsequent events through the date the financial statements were issued.

***Basis of Presentation***

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

The accompanying unaudited consolidated interim financial statements reflect all adjustments, consisting of only normal recurring items, which, in the opinion of management, are necessary for a fair presentation of the results of operations for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full year or for any future periods.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States ("GAAP") requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to uncollectible receivables, the useful lives of long-lived assets including property and equipment, goodwill and other intangible assets, income taxes, and contingencies. In addition, the Company uses assumptions when employing the Black-Scholes option valuation model to calculate the fair value of granted stock-based awards. The Company bases its estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, when these carrying values are not readily available from other sources. Actual results may differ from these estimates.

The consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The consolidated balance sheet as of December 31, 2009 was derived from the Company's audited financial statements for the year ended December 31, 2009.

***Fair Value Measurement***

Effective January 1, 2008, the Company adopted the methods of fair value as described in the Fair Value Measurements and disclosures guidance. It clarifies that fair value is an exit price, representing the amount that would be received in a sale of an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in



**Table of Contents**

pricing an asset or a liability. As a basis for considering such assumptions, the guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Other inputs that are directly or indirectly observable in the marketplace.

Level 3 Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

As of September 30, 2010, the Company has financial assets that consist of cash and cash equivalents, which are measured at fair value using quoted prices for identical assets in an active market (Level 1 fair value hierarchy).

**Comprehensive Income**

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. For the Company, comprehensive income consists of its reported net income and foreign currency translation adjustments. Comprehensive income for each of the periods presented is comprised as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income	\$ 1,226	\$ 1,007	\$ 3,078	\$ 3,204
Foreign currency translation adjustment, net of taxes	106	89	61	27
<b>Total comprehensive income, net of taxes</b>	<b>\$ 1,332</b>	<b>\$ 1,096</b>	<b>\$ 3,139</b>	<b>\$ 3,231</b>

**2. Net Income per Share**

The Company calculates and presents the net income per share of both basic and diluted net income per share. Basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding. Diluted net income per share includes the effect of potential shares of stock outstanding, including dilutive stock options and warrants, using the treasury stock method.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<i>(in thousands except per share data)</i>				
<b>Income per Share of Common Stock Basic</b>				
Net income applicable to common stock	\$ 1,226	\$ 1,007	\$ 3,078	\$ 3,204
Weighted average shares outstanding basic	20,587	20,582	20,585	20,566
<b>Basic Net Income per Share</b>	<b>\$ 0.06</b>	<b>\$ 0.05</b>	<b>\$ 0.15</b>	<b>\$ 0.16</b>
<b>Income per Share of Common Stock Diluted</b>				
Net income applicable to common stock	\$ 1,226	\$ 1,007	\$ 3,078	\$ 3,204
Weighted average shares outstanding basic	20,587	20,582	20,585	20,566
Dilutive options using the treasury stock method	3		3	8

Edgar Filing: SPARK NETWORKS INC - Form 10-Q

Weighted average shares outstanding	diluted	20,590	20,582	20,588	20,574
<b>Diluted Net Income per Share</b>		<b>\$ 0.06</b>	<b>\$ 0.05</b>	<b>\$ 0.15</b>	<b>\$ 0.16</b>

---

**Table of Contents**

Options to purchase 3.1 million shares for the three and nine months ending September 30, 2010 and 3.5 million shares for the three and nine months ending September 30, 2009, were not included in the computation of diluted net income per share because their effect would be anti-dilutive for the periods presented.

**3. Acquisitions of Businesses and Intangibles**

In February 2007, the Company purchased the assets of HurryDate, a leading online personals and singles events company. Of the \$4.3 million cash consideration paid, \$490,000 was assigned to member databases and is being amortized over three years, \$50,000 was assigned to subscriber databases and was amortized over five months, \$800,000 was assigned to developed software which is being amortized over five years, \$360,000 was assigned to domain names which are not subject to amortization and the remainder was assigned to goodwill. In 2008 the Company impaired the goodwill balance associated with HurryDate. The Company paid \$770,000 and \$585,000 towards the final HurryDate earn-out payments in the first and fourth quarters of 2009, respectively, and expensed each payment as impairment expense.

**4. Revolving Credit Facility**

In February 2008, the Company and its wholly-owned subsidiary, Spark Networks Limited, as borrower, entered into an agreement ( the Initial Agreement ) with Bank of America for a \$30.0 million revolving credit facility, which was amended to \$25.0 million on September 29, 2009 (the Amended Agreement ).

The Amended Agreement, among other things, increased the per annum interest rate under the Agreement, which is based upon a financial leverage ratio of less than 1.00, 1.00 to 1.49 and 1.50 and greater. The corresponding interest rates on LIBOR based borrowings are increased to LIBOR plus 1.75%, 2.00% and 2.50%, respectively. In the event the Company elects to borrow under a base rate loan, the corresponding interest rates are increased to the prime rate plus, 0.75%, 1.00% and 1.50%, respectively. Under the Amended Agreement, the Company pays a 0.250% to 0.375% per annum commitment fee on all funds not utilized under the facility, measured on a daily basis.

The Amended Agreement requires the Company to maintain a consolidated leverage ratio at any time during any period of four fiscal quarters of no greater than 2.00 to 1.00 for quarters through December 31, 2009 and 1.50 to 1.00 for quarters on and after March 31, 2010, and a consolidated adjusted EBITDA of \$9 million for the quarters ending September 30, 2009 through December 31, 2009 and \$8 million for the quarters ending on and after March 31, 2010. In addition, the Amended Agreement requires the Company to maintain a fixed charge coverage ratio for each period of four consecutive fiscal quarters of no less than 1.25 to 1.00 through the quarter ending September 30, 2009 and 1.50 to 1.00 for the quarters ending on or after December 31, 2009.

The Company was compliant with the Amended Agreement s customary affirmative and negative covenants, as of September 30, 2010.

At September 30, 2010, there was no outstanding amount under the Amended Agreement. In connection with the amendment in September 2009, the Company paid deferred financing costs of approximately \$21,000. In connection with the Initial Agreement, the Company paid deferred financing costs of approximately \$446,000. Costs associated with both the Initial and the Amended Agreements were included in prepaid expenses and other, and deposits and other assets. In the third quarter of 2009, the Company wrote off \$36,000 of the remaining deferred financing costs associated with the Initial Agreement, reflecting a \$5.0 million reduction in the revolving credit facility. The remaining deferred financing costs are amortized to interest expense in the Consolidated Statements of Operations over the full term of the Amended Agreement. Amortization expense for the deferred financing costs for the three and nine months ended September 30, 2010 and 2009 were \$35,000, \$105,000, \$37,000 and \$111,000, respectively.

**Table of Contents****5. Stockholders Equity*****Re-Pricing of Employees Options***

On January 5, 2009, the Company re-priced options for certain key employees. The exchange of options was treated as a synthetic re-pricing, which includes a cancellation and replacement of equity instruments. The estimated incremental expense was approximately \$1 million and will be recognized over the four year vesting term of the newly issued options. The incremental expenses recognized for the three and nine months ended September 30, 2010 and 2009 were \$43,000, \$296,000, \$57,000 and \$229,000, respectively.

***Employee Stock Option Plans***

As of July 9, 2007, pursuant to the completion of the Scheme of Arrangement, the Company adopted the Spark Networks, Inc. 2007 Omnibus Incentive Plan (the 2007 Plan ) initially authorizing and reserving 2.5 million shares, which may increase on January 1 of each year. Prior to the Company's incorporation and Scheme of Arrangement, Spark Networks plc had two Option Plans, the MatchNet plc 2000 Executive Share Option Plan (the 2000 Plan ) and Spark Networks plc 2004 Share Option Plan (the 2004 Plan ). No further options are granted under the 2000 Plan or the 2004 Plan; however, all outstanding options previously granted under those plans continue in full force and effect.

Awards under the 2007 Plan may include incentive stock options, nonqualified stock options, stock appreciation rights ( SARs ), restricted shares of common stock, restricted stock units, performance stock or unit awards, other stock-based awards and cash-based incentive awards.

The Compensation Committee may grant to a participant an award. The terms and conditions of the award, including the quantity, price, vesting periods and other conditions on exercise will be determined by the Compensation Committee.

The exercise price for stock options will be determined by the Compensation Committee in its discretion, but may not be less than 100% of the closing sale price of one share of the Company's common stock on the NYSE Amex (or any other applicable exchange on which the stock is listed) on the date when the stock option is granted. Additionally, in the case of incentive stock options granted to a holder of more than 10% of the total combined voting power of all classes of stock of the Company on the date of grant, the exercise price may not be less than 110% of the closing sale price of one share of common stock on the date the stock option is granted.

As of September 30, 2010, total unrecognized compensation cost related to unvested stock options was \$1.9 million. This cost is expected to be recognized over a weighted-average period of three years. The following table describes option activity for the nine months ended September 30, 2010:

	Number of Shares (in thousands)	Weighted Average Price Per Share
Outstanding at December 31, 2009	3,387	\$ 3.28
Granted		
Exercised	(5)	3.00
Forfeited	(48)	2.95
Expired	(68)	5.26
Outstanding at March 31, 2010	3,266	\$ 3.13
Granted	10	2.88
Exercised	(1)	3.00
Forfeited	(17)	3.17
Expired	(4)	5.07
Outstanding at June 30, 2010	3,254	\$ 3.12
Cancelled	(39)	3.58
Expired	(21)	3.60

Edgar Filing: SPARK NETWORKS INC - Form 10-Q

Outstanding at September 30, 2010

3,194

\$

3.12

**Table of Contents****Stockholder Rights Plan**

The Company has a stockholder rights plan. The rights accompany each share of common stock of the Company and are evidenced by ownership of common stock. The rights are not exercisable except upon the occurrence of certain takeover-related events. Once triggered, the rights would entitle the stockholders, other than a person qualifying as an Acquiring Person pursuant to the rights plan, to purchase additional common stock at a 50% discount to their fair market value. The rights issued under the Rights Plan may be redeemed by the board of directors at a nominal redemption price of \$0.001 per right, and the board of directors may amend the rights in any respect until the rights are triggered.

**6. Segment Information**

The Company has four operating segments: Jewish Networks, which consists of JDate.com, JDate.co.il, JDate.co.uk, JDate.fr, Cupid.co.il and their respective co-branded and private label Web sites; Other Affinity Networks, which consists of the Company's Provo, Utah-based properties which are primarily made up of sites targeted towards various religious, ethnic, geographic and special interest groups including BlackSingles.com and ChristianMingle.com; General Market Networks, which consists of AmericanSingles.com and Date.ca which were both rebranded as Spark.com in December of 2009 and Date.co.uk which was rebranded as Spark.com in February 2010 and their respective co-branded and private label Web sites; and Offline & Other Businesses, which consists of revenue generated from offline activities, HurryDate events and subscriptions to HurryDate.com.

<i>(in thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenue</b>				
Jewish Networks	\$ 6,766	\$ 7,074	\$ 20,509	\$ 21,721
Other Affinity Networks	2,744	3,195	8,496	9,798
General Market Networks	264	574	932	2,215
Offline & Other Businesses	142	215	805	598
<b>Total</b>	<b>\$ 9,916</b>	<b>\$ 11,058</b>	<b>\$ 30,742</b>	<b>\$ 34,332</b>
<b>Direct Marketing</b>				
Jewish Networks	\$ 696	\$ 628	\$ 1,735	\$ 1,787
Other Affinity Networks	1,601	2,188	4,855	6,345
General Market Networks	121	138	407	559
Offline & Other Businesses	39	100	473	197
<b>Total</b>	<b>\$ 2,457</b>	<b>\$ 3,054</b>	<b>\$ 7,470</b>	<b>\$ 8,888</b>
Unallocated operating expenses	5,607	6,005	18,213	20,307
<b>Operating income</b>	<b>\$ 1,852</b>	<b>\$ 1,999</b>	<b>\$ 5,059</b>	<b>\$ 5,137</b>

Due to the Company's integrated business structure, operating expenses, other than direct marketing expenses, are not allocated to the individual reporting segments. As such, the Company does not measure operating profit or loss by segment for internal reporting purposes. Assets and liabilities are not allocated to the different business segments for internal reporting purposes. Depreciation and amortization are included in unallocated operating expenses.



## **Table of Contents**

### **7. Income on Possession of Assets**

In the third quarter of 2009, the Company became the record title owner of real property purchased in a sheriff's sale to partially satisfy the Company's outstanding judgment against Will Knedlik. The Company recorded other income of \$1.7 million in the Interest expense (income) and other, net line item on the Consolidated Statements of Operations and recorded the asset as Deposits and Other Assets on the Consolidated Balance Sheets.

On May 14, 2010 the Company closed on the sale of this real property. Based upon the net proceeds of the transaction, the Company realized a total gain of \$1.6 million, with substantially all of the gain being recognized in 2009, upon receipt of the real property.

### **8. Commitments and Contingencies**

#### ***Legal Proceedings***

Please refer to our Annual Report on Form 10-K for the year ended December 31, 2009 and subsequent Quarterly Reports on Form 10-Q for a description of litigation and claims.

#### ***ISYSTEMS v. Spark Networks, Inc. et al.***

On July 11, 2008, ISYSTEMS initiated a lawsuit against Spark Networks, Inc., Spark Networks Limited and other parties in the United States District Court, Northern District of Texas, Dallas Division. The lawsuit was filed in response to an arbitration award ordering the transfer of the domain name, JDATE.NET, to Spark Networks Limited from ISYSTEMS. Spark Networks was apprised of the lawsuit after ISYSTEMS unsuccessfully attempted to utilize the filing of the lawsuit to prevent the domain transfer to Spark Networks Limited. On December 1, 2008, Spark Networks filed a Motion to Dismiss the Complaint, or, alternatively, for Summary Judgment. On September 10, 2009, the Court granted our motion and dismissed the case with prejudice. On September 22, 2009, ISYSTEMS filed a motion to vacate the order dismissing the action and requesting leave to amend its complaint. On October 26, 2009, the Court granted ISYSTEMS' motion. ISYSTEMS filed its Amended Complaint on November 25, 2009. On January 19, 2010, Spark Networks filed a Motion to Dismiss the Amended Complaint, or Alternatively, for Summary Judgment. The court granted Spark Networks' motion to dismiss on June 28, 2010. On July 25, 2010, ISYSTEMS filed a motion to vacate the order granting the motion to dismiss, which was denied by the court on August 11, 2010. On September 10, 2010, ISYSTEMS filed a notice of appeal of the district court's orders to the United States Court of Appeals for the Fifth Circuit.

#### ***Ness Interactive v. Spark Networks Limited***

On January 22, 2010, Spark Networks Limited was served with a complaint from Ness Interactive alleging that Spark Networks engaged in unfair competition by bidding on certain online advertising keywords in France. Spark Networks Limited filed its initial response on October 15, 2010 and counterclaimed that Ness engaged in unfair competition. Spark Networks Limited anticipates the court will soon set a hearing date for December 2010.

The Company intends to vigorously defend all claims. At this time, however, the Company is unable to express an opinion on the outcome of these cases.

The Company has additional existing legal claims and may encounter future legal claims in the normal course of business. In the Company's opinion, the resolutions of the existing legal claims are not expected to have a material impact on its financial position or results of operations.

**Table of Contents**

**9. Impairment of Goodwill and Long-lived Assets**

In the first quarter of 2009, the Company paid \$770,000 to the former owners of HurryDate pursuant to an earn-out arrangement (see Note 3). The payment was recorded as an increase of goodwill and was impaired in the same quarter due to an analysis which concluded that a sustained decline in HurryDate's speed dating business had reduced projected cash flows below the carrying amount of the reporting unit.

Additionally, in the nine months ending September 30, 2010 and 2009, the Company impaired approximately \$121,000 and \$110,000 of capitalized software development costs when it was determined that certain web-based products failed to perform to Company standards.

---

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and the related notes that are included in Report on Form 10Q ( Quarterly Report ) and the audited consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2009 (the 2009 Annual Report ).*

*Some of the statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Quarterly Report are forward-looking statements that involve substantial risks and uncertainties. All statements other than historical facts contained in this report, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as believes, expects, anticipates, intends, estimates, may, will, continue, should, plan, predict, potential and other similar expressions. We have based these forward-looking statements on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. Our actual results could differ materially from those anticipated in these forward-looking statements, which are subject to a number of risks, uncertainties and assumptions including, but not limited to our ability to: attract members; convert members into paying subscribers and retain our paying subscribers; develop or acquire new product offerings and successfully implement and expand those offerings; keep pace with rapid technological changes; maintain the strength of our existing brands and maintain and enhance those brands and our dependence upon the telecommunications infrastructure and our networking hardware and software infrastructure; identify and consummate strategic acquisitions and integrate acquired companies or assets; obtain financing on acceptable terms; and successfully implement both cost cutting initiatives and our current long-term growth strategy, and other factors described in the Risk Factors section of our 2009 Annual Report.*

**General**

The common stock of Spark Networks, Inc. (the Company ) is traded on the NYSE Amex. We are a leading provider of online personals services in the United States and internationally. Our Web sites enable adults to meet online, participate in a community and form relationships.

**Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations is based upon our unaudited Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these unaudited Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, uncollectible receivables, intangible and other long-lived assets, stock-based compensation and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There were no significant changes to our critical accounting policies during the nine months ended September 30, 2010, as compared to those policies disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

**Segment Reporting**

For segment information, please refer to Note 6 of the Notes to the Consolidated Financial Statements the ( Notes ) elsewhere in this report.

**Table of Contents****Key Metric Average Paying Subscribers**

We regularly review average paying subscribers as a key metric to evaluate the effectiveness of our operating strategies and monitor the financial performance of our business. Subscribers are defined as individuals for whom we collect a monthly fee for access to communication and Web site features beyond those provided to our non-paying members. Average paying subscribers for each month are calculated as the sum of the paying subscribers at the beginning and end of the month, divided by two. Average paying subscribers for periods longer than one month are calculated as the sum of the average paying subscribers for each month, divided by the number of months in such period.

Unaudited selected statistical information regarding average paying subscribers for our operating segments is shown in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Average Paying Subscribers				
Jewish Networks	89,792	86,051	90,694	84,488
Other Affinity Networks	62,026	66,786	64,744	65,529
General Market Networks	5,888	11,452	6,712	14,428
Offline & Other Businesses	716	917	681	1,030
Total	158,422	165,206	162,831	165,475

Average paying subscribers for the Jewish Networks segment increased 4.3% and 7.3% to 89,792 and 90,694 for the three and nine months ended September 30, 2010 compared to 86,051 and 84,488 for the same periods last year. Average paying subscribers for the Other Affinity Networks segment decreased 7.1% and 1.2% to 62,026 and 64,744 for the three and nine months ended September 30, 2010 compared to 66,786 and 65,529 for the same periods last year. Average paying subscribers for the General Market Networks segment decreased 48.6% and 53.5% to 5,888 and 6,712 for the three and nine months ended September 30, 2010 compared to 11,452 and 14,428 for the same periods last year.

**Results of Operations**

The following table presents our operating results as a percentage of revenue:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues	100.0%	100.0%	100.0%	100.0%
Cost and expenses:				
Cost of revenue	32.3	34.8	31.7	32.8
Sales and marketing	7.8	7.6	8.8	7.4
Customer service	4.1	4.2	3.8	4.2
Technical operations	2.5	3.1	3.0	3.3
Development	7.8	8.1	7.6	9.4
General and administrative	23.4	20.9	24.8	22.0
Depreciation	2.4	2.1	2.3	1.9
Amortization of intangible	1.0	1.1	1.1	1.5
Impairment of goodwill and other assets			0.4	2.6
Total cost and expenses	81.3	81.9	83.5	85.1

Edgar Filing: SPARK NETWORKS INC - Form 10-Q

Operating income	18.7	18.1	16.5	14.9
Interest (income) and other expenses, net	(1.8)	(0.4)	0.1	(4.2)
Income before income taxes	20.5	18.5	16.4	19.1
Provision for income taxes	8.1	9.4	6.4	9.8
Net income	12.4%	9.1%	10.0%	9.3%

**Table of Contents***Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009****Revenue***

Approximately 4.0% of our revenue for the three months ended September 30, 2010 and 2009, respectively, are generated through offline social and travel events, and advertising revenue. Revenue is presented net of credits and credit card chargebacks. Our subscriptions are offered in durations of varying length (typically, one, three, six and twelve months). Plans with durations longer than one month are available at discounted monthly rates. Following their initial terms, most subscriptions renew automatically for subsequent one-month periods until subscribers terminate them.

Revenue decreased 10.3% to \$9.9 million in the third quarter of 2010 compared to \$11.1 million in the third quarter of 2009. The decrease can be attributed to lower subscription revenue in our Jewish, Other Affinity and General Market Networks segments. Revenue for the Jewish Networks segment decreased 4.4% to \$6.8 million in the third quarter of 2010 compared to \$7.1 million in the third quarter of 2009. The decrease in revenue is driven by lower average revenue per user ( ARPU ), reflecting a shift in the mix of plans purchased by our subscribers and their related price points, as we focused on growing our network. Revenue for our Other Affinity Networks segment decreased 14.1% to \$2.7 million in the third quarter of 2010 compared to \$3.2 million in the third quarter of 2009. The decrease in revenue results from a 26.8% reduction in direct marketing investment, which contributed to a lower average paying subscriber base, and lower ARPU. The lower ARPU reflects a shift in the mix of plans purchased by our subscribers and their related price points as we shifted our focus to a select group of brands within this segment. The reduction in direct marketing expense reflects a shift in brand investment. Revenue for the General Market Networks segment decreased 54.0% to \$264,000 in the third quarter of 2010, compared to \$574,000 in the third quarter of 2009. The decrease in revenue is primarily due to a decrease in average paying subscribers, reflecting management's decision to eliminate inefficient online marketing investments in prior periods. Revenue of our Offline & Other Businesses segment decreased 34.0% to \$142,000 in the third quarter of 2010 compared to \$215,000 in the third quarter of 2009. The lower revenue reflects fewer travel and event offerings in the third quarter of 2010 when compared to the same period last year.

***Cost and Expenses***

Cost and expenses consist primarily of cost of revenue, sales and marketing, customer service, technical operations, development and general and administrative expenses. Cost and expenses for the third quarter of 2010 was \$8.1 million, a decrease of 11.0% compared to \$9.1 million for the third quarter of 2009. The decrease is primarily attributable to a \$643,000 decrease in cost of revenue and a \$126,000 decrease in development expense.

*Cost of Revenue.* Cost of revenue consists primarily of direct marketing costs, compensation and other employee-related costs (including stock-based compensation) for personnel dedicated to maintaining our data centers, data center expenses and credit card fees. Cost of revenue decreased 16.7% to \$3.2 million for the three months ended September 30, 2010, compared to \$3.8 million for the same period in 2009. Direct marketing expenses decreased 19.5% to \$2.5 million for the three months ended September 30, 2010, compared to \$3.1 million for the same period in 2009. The majority of this decline can be attributed to a reduction in inefficient online marketing investments for the Other Affinity Networks segment. Direct marketing expenses for the Jewish Networks segment increased 10.8% to \$696,000 in the third quarter of 2010 compared to \$628,000 in the third quarter of 2009. The increase reflects additional online and offline marketing investments. Direct marketing expenses for the Other Affinity Networks segment decreased 26.8% to \$1.6 million for the third quarter of 2010 compared to \$2.2 million in the third quarter of 2009, reflecting a reduction in inefficient online marketing investments and a shift in brand focus. Direct marketing expenses for the General Market Networks segment decreased 12.3% to \$121,000 in the third quarter of 2010 compared to \$138,000 in

## **Table of Contents**

the same period in 2009. Direct marketing expenses for the Offline & Other Businesses segment decreased to \$39,000 for the third quarter of 2010 compared to \$100,000 for the same period in 2009, reflecting fewer travel and event offerings in the third quarter of 2010 when compared to the third quarter of 2009.

*Sales and Marketing.* Sales and marketing expenses consist primarily of salaries for our sales and marketing personnel and other associated costs such as public relations. Sales and marketing expenses decreased 8.4% to \$774,000 in the third quarter of 2010 compared to \$845,000 in the third quarter of 2009. The decrease can be primarily attributed to lower payroll expense due to lower headcount.

*Customer Service.* Customer service expenses consist primarily of costs associated with our call centers. Customer service expenses decreased 10.4% to \$403,000 in the third quarter of 2010 compared to \$450,000 in the third quarter of 2009. The expense decrease is primarily due to a reduction in payroll expenses, reflecting the completion of the migration of our customer service group from Beverly Hills, California to Provo, Utah in the fourth quarter of 2009.

*Technical Operations.* Technical operations expenses consist primarily of the personnel and systems necessary to support our corporate technology requirements. Technical operations expenses decreased 26.3% to \$252,000 in the third quarter of 2010 compared to \$342,000 in 2009. The decrease is primarily due to lower salary and benefits expense, and lower software maintenance expense.

*Development.* Development expenses consist primarily of costs incurred in the development, enhancement and maintenance of our Web sites and services. Development expenses decreased 14.0% to \$773,000 in the third quarter of 2010 compared to \$899,000 in 2009. The decreased costs reflect lower salaries expense and consulting fees.

*General and Administrative.* General and administrative expenses consist primarily of corporate personnel-related costs, professional fees, occupancy expense and other overhead costs. Additionally, in the third quarter of 2010, we incurred costs associated with our Special Committee. General and administrative expenses were flat at \$2.3 million in the third quarter of 2010 compared with the same period in 2009.

*Amortization of intangible assets.* Amortization expenses consist primarily of amortization of intangible assets related to previous acquisitions, primarily MingleMatch, LDSSingles and HurryDate. Amortization expenses decreased 22.8% to \$98,000 in the third quarter of 2010 compared to \$127,000 in the third quarter of 2009. The decrease reflects the full amortization of select HurryDate intangible assets and a reduction in the value of software associated with a previous acquisition.

*Impairment of Goodwill and Other Long-lived Assets.* Impairment of goodwill and other long-lived assets expenses primarily represent the write-down of investments in businesses and computer software. No impairment of goodwill and other long-lived assets occurred in the third quarter of 2010 and 2009.

*Interest Income and Other Expenses, Net.* Interest income and other expenses consist primarily of interest income associated with temporary investments in interest bearing accounts, foreign exchange gains and losses related to the intercompany loan with our wholly-owned Israeli subsidiary and other non-operating income or expense. Interest income and other expenses reflect income of \$182,000 for the third quarter of 2010 compared to \$44,000 for the same period in 2009. The increase is primarily due to foreign currency gains on the intercompany loan and lower interest expense in 2010.

*Net Income and Net Income Per Share.* Net income for the third quarter of 2010 was \$1.2 million, or \$0.06 per share, compared to \$1.0 million, or \$0.05 per share for 2009.

**Table of Contents***Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009***Revenue**

Approximately 5.2% and 4.0% of our net revenue for the nine months ended September 30, 2010 and 2009, respectively, are generated through offline social and travel events, and advertising revenue. Revenue is presented net of credits and credit card chargebacks. Our subscriptions are offered in durations of varying length (typically, one, three, six and twelve months). Plans with durations longer than one month are available at discounted monthly rates. Following their initial terms, most subscriptions renew automatically for subsequent one-month periods until subscribers terminate them.

Revenue decreased 10.5% to \$30.7 million in the first nine months of 2010 compared to \$34.3 million in the first nine months of 2009. The decrease can be attributed to lower subscription revenue in our Jewish, Other Affinity and General Market Networks segments. Revenue for the Jewish Networks segment decreased 5.6% to \$20.5 million in the first nine months of 2010 compared to \$21.7 million in the first nine months of 2009. The decrease in revenue is driven by lower average revenue per user ( ARPU ), reflecting a shift in the mix of plans purchased by our subscribers and their related price points, as we focused on growing our network. Revenue for our Other Affinity Networks segment decreased 13.3% to \$8.5 million in the first nine months of 2010 compared to \$9.8 million in the first nine months of 2009. The decrease in revenue results from a 23.5% reduction in direct marketing investment and lower ARPU. The lower ARPU reflects a shift in the mix of plans purchased by our subscribers and their related price points as we shifted our focus to a select group of brands within this segment. The reduction in direct marketing expense reflects a shift in brand investment. Revenue for the General Market Networks segment decreased 57.9% to \$932,000 in the first nine months of 2010, compared to \$2.2 million in the first nine months of 2009. The decrease in General Market Networks revenue is primarily due to the decrease in average paying subscribers, reflecting management's decision to eliminate inefficient online marketing expenses. Revenue for our Offline & Other Businesses segment increased 34.6% to \$805,000 in the first nine months of 2010 compared to \$598,000 in the first nine months of 2009. The higher revenue reflects a large travel offering in the nine months ended September 30, 2010 when compared to the same period in 2009 which had no similar travel offering.

**Cost and Expenses**

Cost and expenses consist primarily of cost of revenue, sales and marketing, customer service, technical operations, development and general and administrative expenses. Cost and expenses for the nine months ended September 30, 2010 were \$25.7 million, a decrease of 12.0% compared to \$29.2 million for the nine months ended September 30, 2009. The decrease is primarily attributable to a \$1.5 million decrease in cost of revenue, an \$889,000 decrease in development expense and a \$759,000 decrease in impairment of goodwill expense.

*Cost of Revenue.* Cost of revenue consists primarily of direct marketing costs, compensation and other employee-related costs (including stock-based compensation) for personnel dedicated to maintaining our data centers, data center expenses and credit card fees. Cost of revenue decreased 13.4% to \$9.7 million for the nine months ended September 30, 2010 compared to \$11.3 million for the same period in 2009. Direct marketing expenses decreased 16.0% to \$7.5 million for the nine months ended September 30, 2010, compared to \$8.9 million for the same period in 2009. The majority of this decline can be attributed to a reduction in inefficient online marketing investments for the Other Affinity Networks segment. Direct marketing expenses for the Jewish Networks segment decreased 2.9% to \$1.7 million in the nine months ended September 30, 2010 compared to \$1.8 million in the nine months ended September 30, 2009. The decrease reflects our shift to more efficient online marketing investments. Direct marketing expenses for the Other Affinity Networks segment decreased 23.5% to \$4.9 million for the nine months ended September 30, 2010 compared to \$6.3 million in the nine months ended September 30, 2009, reflecting a reduction in inefficient online marketing investments and a shift in brand focus. Direct marketing expenses for the General Market Networks segment decreased 27.2% to \$407,000 in the nine months ended September 30, 2010 compared to \$559,000 in the same period in 2009. The decrease reflects management's decision to pursue cost effective online subscriber acquisition marketing campaigns. Direct marketing expenses for the Offline & Other Businesses segment increased to \$473,000 for the nine months ended September 30, 2010 compared to \$197,000 for the same period in 2009, reflecting a large travel offering in the nine months ended September 30, 2010 when compared to the same period in 2009, which had no similar travel offering.



---

**Table of Contents**

*Sales and Marketing.* Sales and marketing expenses consist primarily of salaries for our sales and marketing personnel. Sales and marketing expenses increased 4.0% to \$2.7 million for the first nine months of 2010 compared to \$2.6 million for the first nine months of 2009. The increase can be primarily attributed to higher stock-based compensation expense and consulting fees.

*Customer Service.* Customer service expenses consist primarily of costs associated with our customer service centers. Customer service expenses decreased 17.5% to \$1.2 million for the first nine months of 2010 compared to \$1.4 million for the first nine months of 2009. The expense decrease is primarily due to a reduction in payroll expenses, reflecting the completion of the migration of our customer service group from Beverly Hills, California to Provo, Utah in the fourth quarter of 2009.

*Technical Operations.* Technical operations expenses consist primarily of the personnel and systems necessary to support our corporate technology requirements. Technical operations expenses decreased 17.6% to \$930,000 for the first nine months of 2010 compared to \$1.1 million for the first nine months of 2009. The decrease is primarily due to lower salary and benefits expense, software maintenance expense and employee placement fees.

*Development.* Development expenses consist primarily of costs incurred in the development, enhancement and maintenance of our Web sites and services. Development expenses decreased 27.6% to \$2.3 million for the first nine months of 2010 compared to \$3.2 million for the first nine months of 2009. The decreased costs reflect lower salaries expense, consulting fees and third-party software expense.

*General and Administrative.* General and administrative expenses consist primarily of corporate personnel-related costs, professional fees, occupancy expense and other overhead costs. General and administrative expenses increased 1.3% to \$7.6 million for the first nine months of 2010 compared to \$7.5 million for the first nine months of 2009. Higher professional service fees associated with the Special Committee of the Board of Directors accounted for the majority of the expense increase.

*Amortization of Intangible Assets.* Amortization expenses consist primarily of amortization of intangible assets related to previous acquisitions, primarily MingleMatch, LDSSingles and HurryDate. Amortization expenses decreased 34.9% to \$324,000 for the first nine months of 2010 compared to \$498,000 for the first nine months of 2009. The decrease reflects the full amortization of select HurryDate intangible assets and a reduction in the value of software associated with a previous acquisition.

*Impairment of Goodwill and Other Long-lived Assets.* Impairment of goodwill and other long-lived assets expenses primarily represent the write-down of investments in businesses and computer software. Impairment of goodwill and other long-lived assets decreased to \$121,000 for the first nine months of 2010 from \$880,000 for the first nine months of 2009. In the first quarter of 2010 and 2009, the Company impaired approximately \$121,000 and \$110,000 of capitalized software development costs when we determined that certain web-based products failed to perform to Company standards. In addition, in the first quarter of 2009, the Company expensed a \$770,000 HurryDate earn-out payment.

*Interest Income and Other Expenses, Net.* Interest income and other expenses consist primarily of interest income associated with temporary investments in interest bearing accounts, foreign exchange gains and losses related to the intercompany loan with our wholly-owned Israeli subsidiary and other non-operating income or expense. Interest income and other expenses, net reflect an expense of \$18,000 for the first nine months of 2010 compared to income of \$1.4 million for the same period in 2009. The decrease is primarily due to income of \$1.7 million recorded in the first nine months of 2009, reflecting the possession of certain assets related to a judgment as discussed in Note 7 of the Notes in this report.

*Net Income and Net Income Per Share.* Net income for the first nine months of 2010 was \$3.1 million, or \$0.15 per share, compared to \$3.2 million, or \$0.16 per share for the first nine months of 2009.

**Table of Contents**

**Liquidity and Capital Resources**

As of September 30, 2010, we had cash and cash equivalents of \$12.7 million. We have historically financed our operations with internally generated funds.

Net cash provided by operations was \$6.0 million for the nine months ended September 30, 2010 compared to \$6.2 million for the same period in 2009.

Net cash provided by investing activities was \$512,000 for the nine months ended September 30, 2010 compared to net cash used in investing activities of \$1.9 million for 2009. In the nine months ended September 30, 2010, the Company invested \$1.0 million in computer hardware and software and sold real property for approximately \$1.6 million.

Net cash provided from financing activities was \$17,000 for the nine months ended September 30, 2010 compared to net cash used in financing activities of \$4.0 million for the nine months ended September 30, 2009. Cash provided from financing activities was primarily due to the exercise of stock options.

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

**Off-Balance Sheet Arrangements**

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

**Table of Contents**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable for a smaller reporting company.

**ITEM 4. CONTROLS AND PROCEDURES**

***(a) Evaluation of disclosure controls and procedures***

As of September 30, 2010, our management, with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), performed an evaluation of the effectiveness and the operation of our disclosure controls and procedures as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act ). Based on that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2010.

***(b) Changes in internal control over financial reporting***

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during the quarter ended September 30, 2010 that has materially affected, or is reasonably likely to affect, our internal control over financial reporting.

**Table of Contents**

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The information required by this item is contained in the Notes to the Consolidated Financial Statements contained in this report under Note 8 Commitments and Contingencies Legal Proceedings and is incorporated herein by reference. Also, refer to our Annual Report on Form 10-K for the year ended December 31, 2009 and subsequent Quarterly Reports on Form 10-Q for a further description of litigation and claims.

**ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors disclosed in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2009.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. RESERVED.**

**ITEM 5. OTHER INFORMATION**

None.

**Table of Contents**

**ITEM 6. EXHIBITS**

(a) Exhibits:

- 31.1 Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**SPARK NETWORKS, INC.**

*/s/ Brett A. Zane*  
Brett A. Zane  
Chief Financial Officer  
Duly Authorized Officer

Date: November 12, 2010