



## **SPARK NETWORKS® REPORTS SECOND QUARTER FINANCIAL RESULTS**

### **Highlights**

- **Company turnaround remains on track**
  - **Significant, double-digit improvement in win-back rates with key cohorts**
  - **Double-digit improvement on ChristianMingle TV spend efficiency**
  - **New communication platform driving increased user engagement**
  - **Subscriber base stabilized on both JDate and ChristianMingle in July versus June**
  - **Reiterating commitment to subscriber growth in Q4**
- **288,284 shares repurchased during Q2 at an average price of \$3.07**

LOS ANGELES, Calif., August 5, 2015 -- Spark Networks, Inc. (NYSE MKT: LOV), a leader in creating communities that help individuals make life-long relationships with others that share their interests and values, today reported financial results for the second quarter ended June 30, 2015.

### **Commentary and Outlook**

Chief Executive Officer Michael Egan stated, "We are pleased to have made considerable progress toward transforming our business during the second quarter, and remain on track to return to sequential subscriber growth across both JDate and ChristianMingle by Q4.

"As a result of the hard work of our teams, by the end of the quarter we began to see real improvements in a number of our underlying subscriber acquisition and retention metrics. These improvements have continued into early Q3 with July being a very solid month for us. In July, our Jewish Network subscriber numbers were up for the first time in a year and our Christian Network subscriber numbers were flat against the end of Q2.

"Our product and technology teams continue to hit their development milestones with the re-design and re-architecture of our core websites and we expect to deliver an updated JDate experience in early Q4 and an updated ChristianMingle experience in the latter part of that quarter. Concurrently, we've been able to release a number of valuable product improvements including an upgrade of our communication platform that has dramatically increased our users' interaction with each other. We also continue to improve our mobile offerings and it is exciting to see that over a third of our new subscribers are now coming through these channels.

"The most encouraging signs are coming from our new marketing team as they have begun to demonstrate meaningful improvements in our customer acquisition and retention programs. For example, we are currently seeing in excess of 10% efficiency gains with our ChristianMingle television marketing spend, our largest acquisition channel. In July, on JDate, we generated more initial registrations than any month since the first quarter of 2014. Additionally, our lifecycle team has captured a 10%

and 20% improvement in win-back rates with recent cohorts versus a year ago on JDate and ChristianMingle, respectively.

“It is important to note that this is just the start. As we roll out new and refreshed products, and continue to enhance our operational capabilities, we expect to drive continued improvements in customer growth and retention.

“Finally, over the last year, we have been approached by various parties to consider acquisition opportunities that take advantage of our brands, strengthening platform, and core competencies. Given the stabilization of our business, we are now positioned to explore these opportunities and will update investors as appropriate.

“While we still have work in front of us, we are encouraged that our efforts are beginning to bear fruit and result in real improvements in the business. Our crawl, walk, run strategy remains squarely on track and we look forward to running in Q4.”

### Financial Highlights

	<u>Q2 2015</u>	<u>Q1 2015</u>	<u>Q2 2014</u>
Revenue	\$12.3 Million	\$13.5 Million	\$15.8 Million
Contribution	\$6.9 Million	\$7.4 Million	\$7.8 Million
Adjusted EBITDA	\$621 Thousand	\$1.8 Million	\$1.1 Million
Net(Loss) Income	\$(95) Thousand	\$723 Thousand	\$(1.1) Million
Cash Balance	\$14.6 Million	\$13.5 Million	\$10.1 Million
Avg. Paying Subs <sup>3</sup>	203,895	213,445	275,345
ARPU	\$19.43	\$19.77	\$17.95

### Financial Results

Revenue in the second quarter of 2015 was \$12.3 million, a decrease of 22% compared to the year ago period, and a 9% decrease from the prior quarter. The year over year and sequential decrease was primarily driven by a decrease in average paying subscribers. The sequential decrease was primarily driven by decreases in average paying subscribers for the Christian and Jewish Networks segments and \$194 thousand of Christian Networks invoiced but un-recognized advertising revenue related to a single delinquent customer, Beanstock Media. The amount is not under dispute, and the Company intends to pursue collection. In addition to the \$194 thousand of invoiced but un-recognized Beanstock revenue, we also took a reserve against \$94 thousand of Beanstock revenue that was previously recognized in the first quarter of 2015. This reserve is recognized as a General & Administrative expense.

Direct marketing expenses in the second quarter of 2015 were \$5.3 million, a decrease of 33% compared to the year ago period and a 12% decrease compared to the prior quarter. Christian Networks accounted for the majority of the decrease compared to the year ago period, reflecting the Company’s strategy to reduce and reallocate direct marketing investments in the segment. The sequential decrease was also driven by Christian Networks and the Company’s decision to invest more heavily in direct marketing efforts in the first quarter of 2015 to maximize what is typically our strongest seasonal period for new subscriber acquisition.

Contribution in the second quarter of 2015 was \$6.9 million, a decrease of 12% compared to the year ago period and a 7% decrease compared to the prior quarter. Our

contribution margin increased to 57% from 55% in the previous quarter and 50% in the year ago period. This increase was primarily driven by expanding contribution margin within our Christian Networks to 36% from 31% in the previous quarter and 23% in the year ago period.

Excluding direct marketing expenses, cost and expenses in the second quarter of 2015 were \$7.1 million, a decrease of 20% compared to the year ago period and a 9% increase compared to the prior quarter. The year over year decrease is the result of lower sales and marketing expenses, and general and administrative expenses, primarily reflecting the impact of the Company's expense reduction and improved efficiency program announced in the third quarter of 2014. The sequential increase was driven by personnel additions on our marketing and technology teams, the aforementioned reserve of \$94 thousand related to Beanstock, and increased legal expenses of approximately \$300,000 related to protecting the Company's intellectual property. The Company will vigorously protect its intellectual property and expects legal expenses to remain at Q2 levels for the foreseeable future.

Net loss in the second quarter of 2015 was \$(95) thousand, or \$(0.00) per share, compared to a net loss of \$(1.1) million, or \$(0.05) per share, in the year ago period and net income of \$723 thousand, or \$0.03 per share, in the prior quarter.

Adjusted EBITDA in the second quarter of 2015 was \$621 thousand compared to \$1.1 million in the year ago period and \$1.8 million in the prior quarter.

### **Liquidity and Share Repurchases**

As of June 30, 2015, the Company had cash and cash equivalents of \$14.6 million, an increase of 8% from \$13.5 million at the end of the prior quarter. As of June 30, 2015, the Company had no outstanding debt.

The Company repurchased 288,284 shares during the second quarter at an average price of \$3.07.

**SPARK NETWORKS, INC.**  
**SEGMENT<sup>4</sup> RESULTS FROM OPERATIONS**  
(in thousands except subscriber and ARPU information)

	<u>Q2 2015</u>	<u>Q1 2015</u>	<u>Q4 2014</u>	<u>Q3 2014</u>	<u>Q2 2014</u>	<u>Q2 '15 v.</u> <u>Q2 '14</u>	<u>Q2 '15 v.</u> <u>Q1 '15</u>
<b>Revenue</b>							
Jewish Networks	\$ 4,846	\$ 5,180	\$ 5,502	\$ 5,724	\$ 5,895	-17.8%	-6.4%
Christian Networks	6,921	7,792	8,215	8,672	9,199	-24.8%	-11.2%
Other Networks	470	487	504	533	570	-17.5%	-3.5%
Offline & Other Businesses	<u>25</u>	<u>27</u>	<u>43</u>	<u>79</u>	<u>93</u>	<u>-73.1%</u>	<u>-7.4%</u>
<b>Total Revenue</b>	\$12,262	\$13,486	\$14,264	\$ 15,008	\$ 15,757	-22.2%	-9.1%
<b>Direct Mktg. Exp.</b>							
Jewish Networks	\$ 745	\$ 599	\$ 684	\$ 628	\$ 693	7.5%	24.4%
Christian Networks	4,450	5,338	4,325	5,293	7,073	-37.1%	-16.6%
Other Networks	133	115	116	107	115	15.7%	15.7%
Offline & Other Businesses	<u>-</u>	<u>-</u>	<u>4</u>	<u>19</u>	<u>28</u>	<u>NM</u>	<u>NM</u>
<b>Total Direct Mktg. Exp.</b>	\$ 5,328	\$ 6,052	\$5,129	\$ 6,047	\$ 7,909	-32.6%	-12.0%
<b>Contribution</b>							
Jewish Networks	\$ 4,101	\$ 4,581	\$ 4,818	\$ 5,096	\$ 5,202	-21.2%	-10.5%
Christian Networks	2,471	2,454	3,890	3,379	2,126	16.2%	0.7%
Other Networks	337	372	388	426	455	-25.9%	-9.4%
Offline & Other Businesses	<u>25</u>	<u>27</u>	<u>39</u>	<u>60</u>	<u>65</u>	<u>-61.5%</u>	<u>-7.4%</u>
<b>Total Contribution</b>	\$ 6,934	\$ 7,434	\$ 9,135	\$ 8,961	\$ 7,848	-11.6%	-6.7%
<b>Average Paying Subs.</b>							
Jewish Networks	65,087	69,632	73,429	76,481	78,856	-17.5%	-6.5%
Christian Networks	126,214	130,860	141,188	166,908	181,062	-30.3%	-3.6%
Other Networks	<u>12,594</u>	<u>12,953</u>	<u>13,257</u>	<u>14,290</u>	<u>15,427</u>	<u>-18.4%</u>	<u>-2.8%</u>
<b>Total Avg. Paying Subs.<sup>5</sup></b>	203,895	213,445	227,874	257,679	275,345	-25.9%	-4.5%
<b>ARPU</b>							
Jewish Networks	\$ 24.46	\$ 24.48	\$ 24.44	\$ 24.53	\$ 24.43	0.1%	-0.1%
Christian Networks	17.57	18.01	17.57	16.01	15.65	12.3%	-2.5%
Other Networks	<u>12.08</u>	<u>12.22</u>	<u>12.27</u>	<u>12.11</u>	<u>11.97</u>	<u>0.9%</u>	<u>-1.2%</u>
<b>Total ARPU<sup>5</sup></b>	\$ 19.43	\$ 19.77	\$ 19.47	\$ 18.33	\$ 17.95	8.2%	-1.7%

### Distribution of New Subscription Purchases<sup>6</sup>

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
<b>Jewish Networks</b>					
1 month plans	45.4%	42.7%	41.4%	38.5%	40.4%
3 month plans	21.8%	25.2%	24.3%	24.9%	23.6%
6 month plans	32.8%	32.1%	34.3%	36.6%	36.0%
	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Christian Networks</b>					
1 month plans	54.4%	50.5%	53.7%	50.6%	44.8%
3 month plans	19.4%	17.8%	20.7%	20.8%	18.6%
6 month plans	26.2%	31.7%	25.6%	28.6%	36.6%
	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Other Networks</b>					
1 month plans	58.3%	56.0%	59.2%	58.6%	55.4%
3 month plans	11.9%	12.2%	11.0%	12.2%	12.7%
6 month plans	29.8%	31.8%	29.8%	29.2%	31.9%
	100.0%	100.0%	100.0%	100.0%	100.0%

### Composition of Average Paying Subscriber Base<sup>7</sup>

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
<b>Jewish Networks</b>					
First Time Subscribers	21.5%	22.4%	22.4%	21.9%	22.4%
Winback Subscribers	29.1%	28.8%	29.2%	29.5%	29.8%
Renewal Subscribers	49.4%	48.8%	48.4%	48.6%	47.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Christian Networks</b>					
First Time Subscribers	38.3%	37.1%	38.0%	42.7%	45.8%
Winback Subscribers	22.6%	20.3%	19.7%	20.5%	19.9%
Renewal Subscribers	39.1%	42.6%	42.3%	36.8%	34.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Other Networks</b>					
First Time Subscribers	33.2%	20.3%	30.6%	31.2%	32.2%
Winback Subscribers	21.9%	26.9%	21.8%	22.6%	23.1%
Renewal Subscribers	44.9%	52.8%	47.6%	46.2%	44.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

## **Investor Conference Call**

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

Toll-Free (United States): 1-855-327-6837  
International: 1-778-327-3988

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

A replay will begin approximately three hours after completion of the call and run until August 19, 2015.

Replay  
Toll-Free (United States): 1-877-870-5176  
International: 1-858-384-5517  
Passcode: 928500

## **Safe Harbor Statement:**

This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including the implementation of the "crawl, walk, run" strategy to stabilize and grow the subscriber base which we have adopted. Any statements in this press release that are not statements of historical fact may be considered to be forward-looking statements. Written words, such as "may," "will," "expect," "believe," "anticipate," "estimate," "intends," "goal," "objective," "seek," "attempt," or variations of these or similar words, identify forward-looking statements. By their nature, forward-looking statements and forecasts involve risks and uncertainties because they relate to events and depend on circumstances that will occur in the near future. There are a number of factors that could cause actual results and developments to differ materially, including, but not limited to our ability to: successfully implement our strategy to stabilize our subscriber base and grow; avoid significant subscriber declines; attract and retain members; convert members into paying subscribers and retain our paying subscribers; retain and enhance the new marketing team; develop or acquire new product offerings and successfully implement and expand those offerings; keep pace with rapid technological changes, including making the technology stack more nimble; drive use of newly-updated mobile applications; maintain the strength of our existing brands and maintain and enhance those brands; continue to depend upon the telecommunications infrastructure and our networking hardware and software infrastructure; estimate on-going general and administrative costs, and obtain financing on acceptable terms. Additional factors that could cause actual results to differ are discussed under the heading "Risk Factors" and in other sections of the Company's filings with the Securities and Exchange Commission ("SEC"), and in the Company's other current and periodic reports filed or furnished from time to time with the SEC. All forward-looking statements in this press release are made as of the date hereof, based on information available to the Company as of the date hereof, and the Company assumes no obligation to update any forward-looking statement.

## **About Spark Networks, Inc.:**

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

## **For More Information**

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<sup>1</sup> "Contribution" is defined as revenue, net of credits and credit card chargebacks, less direct marketing.

<sup>2</sup> The Company reports Adjusted EBITDA as a supplemental measure to generally accepted accounting principles ("GAAP"). This non-GAAP measure is one of the primary metrics by which we evaluate the performance of our businesses, budget, forecast and compensate management. We believe this measure provides management and investors with a consistent view, period to period, of the core earnings generated from on-going operations and excludes the impact of: (i) non-cash items such as stock-based compensation, asset impairments, non-cash currency translation adjustments related to an inter-company loan and (ii) one-time items that have not occurred in the past two years and are not expected to recur in the next two years. Adjusted EBITDA should not be construed as a substitute for net income (loss) (as determined in accordance with GAAP) for the purpose of analyzing our operating performance or financial position, as Adjusted EBITDA is not defined by GAAP. A reconciliation of the Adjusted EBITDA for the three and six months ended June 30, 2015 and June 30, 2014 can be found in the table below.

"Adjusted EBITDA" is defined as earnings before interest, taxes, depreciation, amortization, stock-based compensation, impairment of long-lived assets, non-cash currency translation adjustments for an inter-company loan and non-recurring proxy and severance expense.

<sup>3</sup> "Average paying subscribers" are defined as individuals who have paid a monthly fee for access to communication and Web site features beyond those provided to our members. Average paying subscribers for each month are calculated as the sum of the paying subscribers at the beginning and end of the month, divided by two. Average paying subscribers for periods longer than one month are calculated as the sum of the average paying subscribers for each month, divided by the number of months in such period. The calculation excludes results from the Company's HurryDate business due to its relative size.

<sup>4</sup> In accordance with Segment Reporting guidance, the Company's financial reporting includes detailed data on four separate operating segments. The Jewish Networks segment consists of the Company's JDate.com, JDate.co.il, JDate.fr, JDate.co.uk and Cupid.co.il Web sites and their respective co-branded Web sites. The Christian Networks segment consists of the Company's ChristianMingle.com, ChristianMingle.co.uk, ChristianMingle.com.au, Believe.com, ChristianCards.net, ChristianDating.com, DailyBibleVerse.com and Faith.com Web sites. The Other Networks segment consists of Spark.com and related other general market Web sites as well as other properties which are primarily composed of sites targeted towards various religious, ethnic, geographic and special interest groups. The Offline & Other Businesses segment consists of revenue generated from offline activities and HurryDate events and subscriptions.

<sup>5</sup> ARPU is defined as average revenue per user per month. Total ARPU excludes results from the Company's HurryDate business due to its relative size.

<sup>6</sup> One month plans may also include a small amount of two month plans. Three month plans may include a small amount of four month plans. Six month plans may include a small amount of twelve month plans.

<sup>7</sup> Represents the type of subscriber comprising the average paying subscribers in that period. First Time Subscribers are defined as those subscribers that have never purchased a subscription from the Company for that reporting segment. Winback Subscribers are defined as those individuals who have purchased a subscription from the Company for that reporting segment, allowed their subscription to lapse, and subsequently purchased a subscription from the Company for that reporting segment. Renewal Subscribers are defined as those subscribers that have auto-renewed a subscription from the Company for that reporting segment.

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

	<b>June 30,</b>	<b>December 31,</b>
	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents.....	\$ 14,617	\$ 11,696
Restricted cash.....	875	1,056
Accounts receivable, (net of allowance for doubtful accounts of \$0 and \$99 at December 31, 2014 and June 30, 2015, respectively) .....	1,202	1,308
Deferred tax asset – current .....	9	11
Prepaid expenses and other .....	839	1,516
Total current assets .....	17,542	15,587
Property and equipment, net.....	4,581	4,072
Goodwill .....	8,768	8,575
Intangible assets, net.....	2,451	2,469
Deferred tax asset – non-current.....	68	68
Deposits and other assets.....	119	234
Total assets .....	\$ 33,529	\$ 31,005
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable.....	\$ 1,608	\$ 1,300
Accrued liabilities.....	4,133	3,948
Deferred revenue .....	6,308	7,092
Deferred tax liability – current portion.....	576	496
Total current liabilities .....	12,625	12,836
Deferred tax liability .....	1,658	1,607
Other liabilities .....	677	807
Total liabilities .....	14,960	15,250
Commitments and contingencies .....		
Stockholders' equity:		
Authorized capital stock consists of 100,000,000 shares of Common Stock, \$0.001 par value; issued and outstanding: 24,556,182 and 25,156,622 shares at December 31, 2014 and June 30, 2015, respectively: .....	25	25
Additional paid-in-capital .....	74,713	72,522
Accumulated other comprehensive income.....	754	759
Accumulated deficit.....	(56,923)	(57,551)
Total stockholders' equity .....	18,569	15,755
Total liabilities and stockholders' equity .....	\$ 33,529	\$ 31,005



**SPARK NETWORKS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(unaudited, in thousands, except per share data)

	<u>Three Months Ended</u> <u>June 30,</u>		<u>Six Months Ended</u> <u>June 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenue .....	\$ 12,262	\$ 15,757	\$ 25,748	\$ 32,373
Cost and expenses:				
Cost of revenue (exclusive of depreciation shown separately below) .....	6,368	8,866	13,465	21,230
Sales and marketing .....	996	1,369	1,751	2,931
Customer service .....	721	763	1,470	1,551
Technical operations .....	214	300	426	641
Development .....	1,008	900	1,925	1,759
General and administrative .....	2,533	4,069	4,771	7,026
Depreciation .....	532	523	1,045	1,040
Amortization of intangible assets .....	10	10	20	20
Impairment of long-lived assets .....	37	—	106	—
Total cost and expenses .....	<u>12,419</u>	<u>16,800</u>	<u>24,979</u>	<u>36,198</u>
Operating income (loss) .....	(157)	(1,043)	769	(3,825)
Interest income (expense) and other, net .....	230	48	112	17
Income (loss) before income taxes .....	73	(995)	881	(3,808)
Provision for income taxes .....	168	140	253	219
Net income (loss) .....	(95)	(1,135)	628	(4,027)
Other comprehensive income, net of tax:				
Foreign currency translation adjustment .....	(7)	12	(5)	11
Comprehensive income (loss) .....	<u>\$ (102)</u>	<u>\$ (1,123)</u>	<u>\$ 623</u>	<u>\$ (4,016)</u>
Net earnings (loss) per share—basic and diluted .....	<u>\$ (0.00)</u>	<u>\$ (0.05)</u>	<u>\$ 0.03</u>	<u>\$ (0.17)</u>
Weighted average shares outstanding – basic .....	25,100	23,851	24,878	23,886
Weighted average shares outstanding – diluted .....	25,100	23,851	25,100	23,886

**Stock-based compensation:**  
(in thousands)

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Sales and marketing	\$ 10	\$ 38	\$ 8	\$ 76
Development	3	-	3	-
General and administrative	242	112	326	252

**Reconciliation of Net (Loss) Income to Adjusted EBITDA:**  
(in thousands)

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net (loss) income	\$ (95)	\$ (1,135)	\$ 628	\$ (4,027)
Interest expense	8	12	20	24
Tax provision (benefit)	112	140	197	219
Depreciation	532	523	1,045	1,040
Amortization	10	10	20	20
EBITDA	567	(450)	1,910	(2,724)
Stock-based compensation	255	150	337	328
Impairment of long-lived assets	37	-	106	-
Non-cash currency translation adjustments	(238)	(63)	(136)	(43)
Non-recurring proxy and severance	-	1,424	161	1,424
Adjusted EBITDA	\$ 621	\$ 1,061	\$ 2,378	\$ (1,015)