Apollo Medical Holdings, Inc.
Form 10-Q/A
April 10, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment No.1

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED April 30, 2011

OR

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

COMMISSION FILE NUMBER: **000-25809**

APOLLO MEDICAL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-8046599**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

450 N. Brand Blvd., Suite 600

Glendale, California 91203

(Address of principal executive offices)

(818) 396-8050

Issuer's telephone number:

(Former Name or Former Address, if Changed Since Last Report)

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: x 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 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.

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company x

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

As of June 20, 2011 , there were 28,985,774 shares of the registrant's common stock, $0.001 par value per share, issued and outstanding.

APOLLO MEDICAL HOLDINGS, INC.

FOR THE THREE MONTHS ENDED APRIL 30, 2011

EXPLANATORY NOTE

Apollo Medical Holdings, Inc. is filing this Amendment No. 1 (this "Amendment") to its Quarterly Report on Form 10-Q for the three months ended April 30, 2011 in response to comments received from the SEC.

This Amendment No. 1 speaks as of the filing date of the original Quarterly Report on Form 10-Q, except where otherwise expressly stated and except for the certifications, which speak as of their respective dates and the filing date of this Amendment No. 1. The information contained in this Amendment No. 1 has not been updated to reflect events occurring or trends arising after the original filing date of the original Quarterly Report on Form 10-Q.

In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, this Amendment republishes the amended items in their entirety.

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APOLLO MEDICAL HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	April 30, 2011	January 31, 2011
CURRENT ASSETS		
Cash and cash equivalents	$281,869	$397,101
Accounts receivable, net	692,403	704,971
Receivable from officers	24,873	24,873
Due from affiliate	4,700	3,900
Prepaid expenses	17,227	29,138
Prepaid financing cost, current	37,500	37,500
Total current assets	1,058,572	1,197,483
Prepaid financing cost, long term	29,688	39,063
Property and equipment – net	18,300	21,593
Intangible assets	577,500	-
TOTAL ASSETS	$1,684,060	$1,258,139
LIABILITIES AND STOCKHOLDERS' DEFICIT:		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$99,562	$92,745
Contingent consideration payable (see Note 18)	367,500	-
Total current liabilities	467,062	92,745
Convertible notes	1,248,789	1,248,588
Total liabilities	1,715,851	1,341,333
STOCKHOLDERS' DEFICIT:		
Preferred stock, par value $0.001 ; 5,000,000 shares authorized; none issued	-	-
Common Stock, par value $0.001; 100,000,000 shares authorized, 28,985,774 and 27,635,774 shares issued and outstanding as on April 30, 2011 and January 31, 2011, respectively	28,986	27,636
Additional paid-in-capital	1,337,401	1,058,418
Accumulated deficit	(1,626,293)	(1,397,363)
Total	(259,906	(311,309)
Non-controlling interest	228,115	228,115
Total stockholders' deficit	(31,791)	(83,194)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$1,684,060	$1,258,139

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

APOLLO MEDICAL HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the three month periods ended April 30, 2011	2010
REVENUES	$ 1,039,693	$ 802,885
COST OF SERVICES	947,489	674,686
GROSS REVENUE	92,204	128,199
OPERATING EXPENSES:		
General and administrative	276,355	85,192
Depreciation	3,293	3,006
Total operating expenses	279,648	88,198
PROFIT/(LOSS) FROM OPERATIONS	(187,444)	40,001
OTHER EXPENSES:		
Interest expense	(31,574)	(31,523)
Financing cost	(9,375)	(9,375)
Other expense	1,063	854
Total other expenses	(39,886)	(40,044)
LOSS BEFORE INCOME TAXES	(227,330)	(43)
Provision for income tax	1,600	800
NET LOSS	$ (228,930)	$ (843)
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING, BASIC AND DILUTED	28,648,134	27,229,655
*BASIC AND DILUTED NET LOSS PER SHARE	$ (0.01)	$ (0.00)

*Weighted average number of shares used to compute basic and diluted loss per share is the same since the effect of dilutive securities is anti-dilutive.

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

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APOLLO MEDICAL HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	For three month periods ended April 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (228,930)	$ (843)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	3,293	3,006
Bad debt expense	-	(60,647)
Issuance of shares for services	63,000	30,066
Non-cash stock option expense	7,333	-
Amortization of debt discount	201	202
Changes in assets and liabilities:		
Accounts receivable	12,568	(135,510)
Prepaid financing cost	9,375	9,376
Prepaid expenses	11,911	7,344
Accounts payable and accrued liabilities	6,817	(8,824)
Net cash used in operating activities	(114,432)	(155,830)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment	-	(4,568)
Due from related parties	(800)	(800)
Net cash used in investing	(800)	(5,368)
NET DECREASE IN CASH & CASH EQUIVALENTS	(115,232)	(161,197)
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	397,101	665,737
CASH & CASH EQUIVALENTS, ENDING BALANCE	$ 281,869	$ 504,540
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid during the quarter	$ 123	$ 71
Taxes paid during the quarter	$ 1,600	$ 1,600
NONCASH FINANCING ACTIVITIES		
Common stock issue for acquisition of AHI (see Note 18)	$ 210,000	$ -
Contingent consideration payable (see Note 18)	$ 367,500	$ -

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

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APOLLO MEDICAL HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Description of Business and Merger

Apollo Medical Holdings, Inc. (“Apollo” or the “Company”) is a leading provider of hospitalist services in the Greater Los Angeles, California area. Hospitalist medicine is organized around the admission and care of patients in an inpatient facility such as a hospital or skilled nursing facility and is focused on providing, managing and coordinating the care of hospitalized patients. Apollo Medical Holdings, Inc. operates as a medical management holding company that focuses on managing the provision of hospital-based medicine through a wholly owned subsidiary-management company, Apollo Medical Management, Inc. (“AMM”). Through AMM, the Company manages affiliated medical groups, which primarily consists of ApolloMed Hospitalists (“AMH”). AMM operates as a Physician Practice Management Company (PPM) and is in the business of providing management services to Physician Practice Companies (PPC) under Management Service Agreements.

On February 15, 2011, the Company completed a merger ("Merger"), whereby Aligned Healthcare Group, Inc. became a wholly-owned subsidiary of Apollo Medical Holdings, Inc. The Merger was effected pursuant to Stock Purchase Agreement, dated February 15, 2011, by and among Aligned Healthcare Group – California, Inc., Raouf Khalil, Jamie McReynolds, M.D. BJ Reese and BJ Reese & Associates, LLC, under which the Company acquired all of the issued and outstanding shares of capital stock (the “Acquisition”) of Aligned Healthcare, Inc., a California corporation (“AHI”), from AHI’s shareholders. AHI is engaged in the business of operating 24-hour physician call centers and provides specialized care management services (See Note 18).

2. Summary of Significant Accounting Policies

Accounting Principles

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in management’s opinion, are necessary for fair presentation of the information contained herein. These financial statements should be read in conjunction with the Company's financial statements and notes thereto included in the Company's audited financial statements on Form 10-K for the fiscal year ended January 31, 2011 as filed with the Securities and Exchange Commission (“SEC”) on May 16, 2011.

Principles of Consolidation

Our consolidated financial statements include the accounts of our wholly-owned subsidiaries, and a professional medical corporation for which we have determined that we have a controlling financial interest through a long-term management agreement. Some states have laws that prohibit business entities from practicing medicine, employing physicians to practice medicine, exercising control over medical decisions by physicians (collectively known as the corporate practice of medicine), or engaging in certain arrangements with physicians, such as fee-splitting. In California, and in accordance with these laws, we operate by maintaining a long-term management contract with a professional medical corporation, which is owned and operated by physicians, and which employ or contract with additional physicians to provide hospitalist services. Under this management agreement, we have exclusive authority over all non-medical management and administrative services, including financial management, information systems, marketing, risk management and administrative support. The management agreement has an initial term of 20 years.

All intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Reclassification

Certain comparative amounts have been reclassified to conform to the three month periods ended April 30, 2011 and 2010.

Recently Issued Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2010-29, *Business Combinations, Disclosure of Supplementary Pro Forma Information for Business Combinations* ("ASU 2010-29"), which provides clarification regarding pro forma revenue and earnings disclosure requirements for business combinations. The amendments in this ASU specify that if a public entity presents comparative financial statements, the entity should disclose only revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company adopted ASU 2010-29 during the first interim reporting period of 2011 as it relates to pro-forma disclosure of the Company's acquisitions. The adoption of ASU 2010-29 did not have a material impact on the Company's consolidated financial statements.

ASU No. 2010-28, *Intangibles — Goodwill and Other, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* ("ASU 2010-28") was issued in December 2010. The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any events or circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The Company adopted ASU 2010-28 for the quarter ending March 31, 2011.

3. Uncertainty of ability to continue as a going concern

The Company's financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. As shown in the accompanying consolidated financial statements, the Company has an accumulated deficit of $1,626,293 as of April 30, 2011. In addition, the Company has a total stockholders' deficit of $31,791 and a negative net cash flow operating activities for the twelve months ended April 30, 2011 of $114,432.

The financial statements do not include any adjustments relating to the recoverability and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

To date the Company has funded its operations from both internally generated cash flow and external sources, and the proceeds available from the private placement of convertible notes which have provided funds for near-term operations and growth. The Company will pursue additional external capitalization opportunities, as necessary, to fund its long-term goals and objectives. Management has taken action to strengthen the Company's working capital position and generate sufficient cash to meet its operating needs through January 31, 2012 and beyond. The Company also anticipates generating more revenue through new hospitalist, care management contracts and mergers and acquisitions.

No assurances can be made that management will be successful in achieving its plan. If the Company is not able to raise substantial additional capital in a timely manner, the Company may be forced to cease operations.

4. Accounts Receivable

Accounts receivable primarily consists of amounts due from third-party payors, including government sponsored Medicare and Medicaid programs, and insurance companies, and amounts due from hospitals, and patients. Accounts receivable are recorded and stated at the amount expected to be collected

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Reserves are recorded primarily on a specific identification basis.

As of April 30, 2011, Accounts Receivable totals $692,403, net of a provision for bad debt expense of $34,746, and represents amounts invoiced by AMH. Accounts Receivable was $704,971, net of the provision for bad debt expense of $34,746, on January 31, 2011.

5. Other Receivables

Other receivables total $24,872 and represent amounts due the Company from two officers. These balances are due on demand, non-interest bearing and are unsecured.

6. Due from affiliate

Due from Apollo Medical Associates ("AMA") was $4,700 and $3,900 as of April 30, 2011 and January 31, 2011, respectively, and represents amounts due from AMA. These balances are due on demand, non-interest bearing and are unsecured. AMA is an unconsolidated affiliate of the Company and currently has no operations and is inactive. No management agreement currently exists between AMM and AMA.

7. Prepaid Expenses

Prepaid Expenses of $17,228 and $29,138 as of April 30, 2011 and January 31, 2011, respectively, are amounts prepaid for medical malpractice insurance and Director's and Officer's insurance.

8. Prepaid Financing Cost

Unamortized financing cost of $67,188 on April 30, 2011 and $76,563 as of January 31, 2011 represent the financing cost associated with 10% Senior Subordinated Callable Convertible Notes due January 31, 2013, $125,000 paid by the Company on the closing of the placement on October 16, 2009 (see Note 11).

9. Property and Equipment

Property and Equipment consists of the following as of :

	April 30, 2011	January 31, 2011
Website	$4,568	$4,568
Computers	13,912	13,912
Software	155,039	155,039
Machinery and equipment	50,815	50,815
Gross Property and Equipment	224,334	224,334
Less accumulated depreciation	(206,034)	(202,741)
Net Property and Equipment	$18,300	$21,593

Depreciation expense was $3,293 and $3,006 for the three month periods ended April 30, 2011 and 2010, respectively.

10. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following as of:

	April 30, 2011	January 31, 2011
Accounts payable	$49,507	$ 35,815
D&O insurance payable	2,749	10,913

Accrued interest	31,250	-
Accrued professional fees	10,000	5,483
Accrued payroll and income taxes	6,056	40,534
Total	$99,562	$ 92,745

11. Long-term Debt

The Company's long-term debt consisted of the following:

	April 30, 2011	January 30, 2011
Subordinated Borrowings:		
10% Senior Subordinated Convertible Notes due January 31, 2013	$1,248,789	$1,248,588
Total long-term debt	$1,248,789	$1,248,588
Less: Current Portion		
Total	$1,248,789	$1,248,588

Subordinated Borrowings

10% Senior Subordinated Callable Convertible Notes due January 31, 2013

On October 16, 2009, the Company issued $1,250,000 of its 10% Senior Subordinated Callable Convertible Notes. The net proceeds of $1,100,000 will be used for the repayment of existing debt, acquisitions, physician recruitment and other general corporate purposes. The notes bear interest at a rate of 10% annually, payable semi annually on January 31 and July 31. The Notes mature and become due and payable on January 31, 2013 and rank senior to all other unsecured debt of the Company.

The 10% Notes were sold through an Agent in the form of a Unit. Each Unit was comprised of one 10% Senior Subordinated Callable Note with a par value $25,000, and one five-year warrant to purchase 25,000 shares of the Company's common stock. The purchase price of each Unit was $25,000, resulting in gross proceeds of $1,250,000.

In connection with the placement of the subordinated notes, the Company paid a commission of $125,000 and $25,000 of other direct expenses. The agent also received five-year warrants to purchase up to 250,000 shares of the Common Stock at an initial exercise price of $0.25 per share adjustable pursuant to changes in public value of our shares and cash flow of the Company from July 31, 2011 until the note is paid in full. The agent also received 100,000 shares of restricted common stock for pre-transaction advisory services and due diligence. A commission of $125,000 paid at closing, is accounted for as prepaid expense and will be amortized over a forty-month period through January 31, 2013, the maturity date of the notes. The $25,000 of other direct expenses were paid at closing and reported as financing costs in the Operating Statement. In addition, financing costs included $4,000 related to the value of the 100,000 shares granted to the placement agent. Interest expense of $36,458 was recorded in the year ended January 31, 2010.

The 10% Notes are convertible any time prior to January 31, 2013. The initial conversion rate is 200,000 shares of the Company's common stock per $25,000 principal amount of the 10% Notes adjustable pursuant to changes in public value of our shares and cash flow of the Company. This represents an initial conversion price of $0.125 per share of the Company's common stock. The note is fixed from August 1, 2009 through July 31, 2011. After July 31, 2011, the conversion price will equal to the lesser of $0.125 per share or the average of the monthly high stock price and low stock price as reported by Bloomberg multiplied by 110%. The minimum conversion price is the greater of $0.05 per share or 8 times cash EPS.

On or after January 31, 2012, the Company may, at its option, upon 60 days notice to both the Note-holder's and the placement agent, redeem all or a portion of the notes at a redemption price in cash equal to 102% of the principal amount of the notes to be redeemed plus accrued and unpaid interest to, but excluding, the redemption date.

The Warrants attached to the Units are exercisable into shares of Common Stock at an initial exercise price of $0.125. The Warrants have a five-year term and expire on October 31, 2014. The Company's calculations were made using the Black-Scholes option-pricing model with the following assumptions: expected life of 5 years; 48.0% stock price volatility; risk-free interest rate of 2.16% and no dividends during the expected term. These warrants were estimated to have a fair value of $2,653 using the Black-Scholes pricing model which was recorded as unamortized warrant discount on the grant date and $2,418 as of January 31, 2010.

In connection with this offering, the Company also issued warrants to purchase 250,000 shares of our common stock to the placement agent at an exercise price of $0.25 per share, and are exercisable immediately upon issuance and expire five years after the date of issuance. The Company's calculations were made using the Black-Scholes option-pricing model with the following assumptions: expected life of 5 years; 48.0% stock price volatility; risk-free interest rate of 2.16% and no dividends during the expected term. These warrants were estimated to have a fair value of $2,200, which was recorded as unamortized warrant discount on the grant date. The exercise price of the warrants are adjustable according to the same terms as the 10% Notes.

8% Convertible Notes due December 25, 2009

On July 28, 2008, the Company issued $70,000 in the form of a note payable to a relative of the CEO of the Company. The Note carried no interest rate and the Company agreed to pay a $5,000 origination fee to be paid at the time of pay off. The maturity date on this Note was October 1, 2008. The note was extended by verbal agreement on its expiration date with no change in terms. On January 24, 2009, the Company formalized the note extension with the note holder. Under the terms of the new note, the $5,000 origination fee was added to the note, the due date was extended to March 31, 2011, the interest rate was set at eight 8% and the note is initially convertible into 214,285 shares of common stock. The Company paid the note in full, with accumulated interest, on October 22, 2009. The Company recorded interest expense of $4,323 and $99 for the twelve months ended January 31, 2010 and January 31, 2009, respectively.

10% Convertible Notes due between October 7, 2009 and December 12, 2009

Between October 7, 2008 and December 12, 2008 the Company issued $210,000 of its 10% Convertible Notes with attached Warrants. The notes bear interest at a rate of 10% annually, mature and become due twelve months from the date of issuance ranging from October 7, 2009 and December 12, 2009. The conversion rate is 1,333.333 shares of the Company’s common stock per $1,000 principal amount of the Notes . As of January 31, 2009, the Company received notices to convert $200,000 of notes into shares of the Company’s common stock. The remaining balance of $10,000 was paid in full, with interest, on December 28, 2009.

Each Note Holder also received 666.67 Warrants per $1,000 principal amount of the Notes purchased. These Warrants are exercisable into shares of Common Stock at an exercise price of $1.50. The Warrants have a three-year term and expire on the third year anniversary of the respective notes. The Company recorded value of warrants using the Black Scholes pricing model using the following assumptions: Stock price $0.27, Expected life of 3 years, Risk free bond rate of 1.05% to 2.00% and volatility of 44% to 61%. Based on the assumptions used the Company recorded the fair value of warrants amounting to $379 which was fully amortized as interest expense during year ended January 31, 2009.

The Company recorded interest expense of $ 31,250 and $31,250 related to these notes for the three months ended April 30, 2011 and 2010.

12. Related Party Transactions

During the three months ended April 30, 2011 and 2010, the Company generated revenue of $110,000 and $105,000, respectively, by providing management services to ApolloMed Hospitalists (AMH), an affiliated company with common ownership interest. Commencing August 1, 2008, the management services fee income reported by AMM was eliminated in consolidation against similar costs recorded at AMH.

During the three months ended April 30, 2011, the Company issued 350,000 shares valued at $63,000 to the chief financial officer for consulting service. (see Note 15)

13. Non-Controlling Interest

The Company recorded AMH ownership interest in the accompanying financial statements as Non-Controlling Interest of $228,115 at April 30, 2011 and January 31, 2011.

14. Income Taxes

Our effective tax rates were approximately 1.0% and 1.86% for the three months ended April 30, 2011 and 2010, respectively. Our effective tax rate was lower than the U.S. federal statutory rate due to the fact that the Company records a full valuation allowance on deferred tax assets, which are primarily generated as a result of net operating losses incurred.

15. Stockholder's Equity

In the first quarter ended April 30, 2011, the Company issued 1,350,000 common shares, bringing the total outstanding shares to 28,985,774. A total of 350,000 shares were issued to Kanehoe Advisors and 1,000,000 shares were issued in connection with the acquisition of Aligned Healthcare Group, Inc. (see Note 18). The 1,350,000 shares were valued at $273,000 based on the fair value of shares at issuance date.

The Company issued a total of 594,446 common shares in the twelve months ended January 31, 2011, including 383,333 shares in the first quarter ended April 30, 2010 and 211,113 shares issued in the second quarter ended July 31, 2010. Of the 594,446 shares issued, 244,446 were issued to officers and directors and 350,000 shares were issued to Kanehoe Advisors. The total shares of 594,446 were valued at $47,378 based on the fair value of shares at issuance dates.

Warrants outstanding:

No warrants were issued by the Company in the quarter ended April 30, 2011.

	Aggregate intrinsic value		Number of warrants
Outstanding at January 31, 2011	$	—	1,655,333
Granted		—	-
Exercised		—	—
Cancelled		—	—
Outstanding at April 30, 2011	$	—	1,655,333

Exercise Price	Warrants outstanding	Weighted average remaining contractual life	Warrants exercisable	Weighted average exercise price
$ 1.500	155,333	0.49	155,333	$ 1.50
$ 0.125	1,250,000	3.51	1,250,000	$ 0.125
$ 0.250	250,000	3.51	250,000	$ 0.25

Options outstanding:

Stock option transactions under the Company’s stock option plans for the three months ended April 30, 2011 are summarized below:

	Shares	Weighted Average Per Share Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance, January 31, 2011	1,150,000	$ 0.15		

Weighted average shares outstanding diluted 26,027 30,868

Diluted earning per share	**$ 0.06**	**$ (0.04)**

3. Acquisitions of Businesses and Intangibles

Kizmeet

On October 22, 2007, the Company entered into an agreement to purchase the stock of Kizmeet.com a free, ad-supported, missed connections web site. Since the majority of the purchase was related to the domain name, the Company recorded the entire purchase price of $360,000, ($300,000 cash and $60,000 hold-back to be paid on the first anniversary of the closing) as a domain name subject to annual impairment testing under SFAS 142. Kizmeet complements our current advertising offering and extends our reach with a service that caters to a different audience than our traditional online personals communities.

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HurryDate Asset Acquisition

On February 1, 2007, the Company purchased the assets of HurryDate, a leading online personals and singles events company, for total consideration of $2.3 million, of which $2.0 million was paid at close in cash. In addition, subject to certain conditions in the purchase agreement, the Company would also pay additional consideration based on an earn-out calculation contingent upon the operating income of the HurryDate business for the period covering April 1, 2007 to March 31, 2008. In the second quarter of 2007, the Company paid the remaining $250,000 of the initial cash consideration. On October 17, 2007, the Company entered into a letter agreement with the sellers and agreed that the first and second earn-out payments would each be $770,000 and the third earn-out payment would be $660,000. These amounts when paid would be an increase to the goodwill recorded for this acquisition. These amounts assume that the sellers are entitled to a full earn-out payment pursuant to the purchase agreement. The purchase of HurryDate expands the Company s offline presence and solidifies its position as the only leading online personals provider to effectively marry the online and offline dating worlds. Of the $2.2 million of acquired intangible assets, $490,000 was preliminarily assigned to member databases and will be amortized over three years, $50,000 was preliminarily assigned to subscriber databases which will be amortized over five months, $800,000 was preliminarily assigned to developed software which will be amortized over five years, $360,000 was preliminarily assigned to domain names which are not subject to amortization, and the remainder was recorded as goodwill.

4. Obligations under Capital Leases

In the first quarter of 2007, the Company paid off the balance of capital lease obligations it had entered into during 2006.

5. Shareholders Equity

Share Repurchase Program

The Company s Board of Directors approved a share repurchase program pursuant to which the Company may repurchase, from time to time, its common stock on the American Stock Exchange. Under the plan, which was adopted on March 10, 2008 and amended on March 14, 2008, the Company is permitted to repurchase up to an aggregate of 1,500,000 shares of common stock. From March 10, 2008 through March 31, 2008, the Company repurchased and retired approximately 801,229 shares of its common stock at a weighted average price of $4.09.

The repurchases of shares pursuant to the open market plan were conducted in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, which prescribes price, volume and procedural requirements for an issuer purchasing its shares.

Employee Share 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). Prior to the Company s incorporation and Scheme of Arrangement, Limited had two share option plans, the MatchNet plc 2000 Executive Share Option Plan (the 2000 Plan) and Spark Networks plc 2004 Share Option Plan (the 2004 Plan and, collectively, with the 2000 Plan, plc Plans). Effective July 9, 2007, no further options are granted under the plc Plans, however, pursuant to the provisions of the plc Plans, all outstanding options previously granted under the plc 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 share or unit awards, other stock-based awards and cash-based incentive awards.

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The Compensation Committee of the Company s Board of Directors may grant an award to a participant. 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 American Stock Exchange (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 March 31, 2008, total unrecognized compensation cost related to non-vested stock options was $6.0 million. This cost is expected to be recognized over a weighted-average period of four years. The following table describes option activity for the three months ended March 31, 2008:

	Number of Shares (in thousands)	Weighted Average Price Per Share
Outstanding at December 31, 2007	4,317	$ 5.98
Granted	29	5.36
Exercised	(124)	4.76
Cancelled	(184)	8.71
Outstanding at March 31, 2008	4,038	$ 6.10

Options issued prior to February 2006 are priced in foreign currency. Weighted average price per share calculations are impacted by foreign exchange fluctuations for these options.

Shares Subject to Rescission

Under the 2000 Plan, the Company 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 Plan may not have been exempt from registration and qualification under federal and California state securities laws. In prior financial statements, the Company disclosed the potential California and federal securities law violations in connection with options. The Company has reported in its financial statements for previous periods a put liability related to shares that are subject to rescission. The Company has reviewed the applicable statute of limitations related to the securities issuances and believes that the civil liability related to those securities issuances has become minimal. As such, the Company has reclassified the put liability related to the shares subject to rescission into permanent shareholder s equity, beginning with the period ended March 31, 2008.

Stockholder Rights Plan

As of July 9, 2007, the Company adopted a stockholder rights plan in connection with the completion of the Scheme of Arrangement. 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 Shares 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.

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6. Quarterly Information

In the third quarter of 2007, the Company reclassified certain expenses to conform to the current year presentation. The reclassification was done to more accurately reflect the Company s expenses in accordance with current management of the Company. In addition to the reclassification, in its annual 2007 10-K filing, the Company adjusted its operating expenses reported in Form 10-Q to reflect changes in share-based compensation as discussed in detail, in the 2007 Form 10-K.

The following information reflects reclassifications in the third quarter and the share-based compensation adjustments recorded in the fourth quarter:

	Three Months Ended March 31, 2007		
	As Reported	Share-Based Compensation	Restated
Net revenues	$ 16,820	$	$ 16,820
Direct marketing expenses	6,757		6,757
Contribution	10,063		10,063
Total operating expenses	12,309	(586)	11,723
Operating income (loss)	(2,246)	586	(1,660)
Interest (income), loss and other expenses, net	(205)		(205)
Income (loss) before income taxes	(2,041)	586	(1,455)
Provision (benefit) for income taxes	(73)		(73)
Net income (loss)	$ (1,968)	$ 586	$ (1,382)
Net income (loss) per share basic	$ (0.06)	$ 0.02	$ (0.04)
Net income (loss) per share diluted	$ (0.06)	$ 0.02	$ (0.04)
Weighted average shares outstanding basic	30,868		30,868
Weighted average shares outstanding diluted	30,868		30,868

7. Segment Information

During the third quarter of 2007, the Company changed its financial reporting to include data on four newly-defined operating segments: Jewish Networks, which consists of JDate.com, JDate.co.il, Cupid.co.il® and their respective co-branded and private label websites; General Market Networks, which consists of AmericanSingles.com, Date.co.uk , Date.ca® and their respective co-branded and private label websites; 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; and Offline & Other Businesses, which consists of revenue generated from offline activities, HurryDate® events and subscriptions to HurryDate.com, and other websites and businesses. The change, in compliance with Financial Accounting Standard No. 131, Disclosures about Segments of an Enterprise and Related Information, is a result of the change to the Company s overall revenue mix and how management views the business. The Company believes the new segments will provide investors with a more accurate picture of the performance of the business. Prior period segment disclosures were revised to conform to the revised segment presentation.

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(in thousands)	Three Months Ended March 31, 2008	2007
Revenues		
Jewish Networks	$ 8,667	$ 8,337
General Market Networks	2,576	5,032
Other Affinity Networks	3,353	3,229
Offline & Other Businesses	426	222
Total	**$ 15,022**	**$ 16,820**
Direct Marketing		
Jewish Networks	$ 705	$ 989
General Market Networks	1,336	3,638
Other Affinity Networks	1,842	1,995
Offline & Other Businesses	189	135
Total	**$ 4,072**	**$ 6,757**
Contribution		
Jewish Networks	$ 7,962	$ 7,348
General Market Networks	1,240	1,394
Other Affinity Networks	1,511	1,234
Offline & Other Businesses	237	87
Total	**$ 10,950**	**$ 10,063**
Unallocated operating expenses	8,473	11,723
Operating income	**$ 2,477**	**$ (1,660)**

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 are not allocated to the different business segments for internal reporting purposes. Depreciation and amortization are included in unallocated operating expenses.

8. Commitments and Contingencies

Legal Proceedings

Jason Adelman, etc., et al., v. Matchnet plc, etc., et al

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. 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 law, fraudulent and deceptive business practices, breach of contract and unjust enrichment.

On August 8, 2006, the Court granted the Company s application to bifurcate the *Adelman* trial of the issue of actual injury or damages and set the trial for August 17, 2006 (the Bifurcated Damages Trial). The Court determined at the Bifurcated Damages Trial that Adelman did not suffer any actual injury or damages, Adelman s claims were dismissed, and a judgment was entered to award attorneys fees and costs to the Company. On January 31, 2007, the Court awarded the Company $50,000 in legal fees.

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Adelman has filed an appeal seeking to vacate the judgment. In addition, the Company has filed an appeal of the attorneys fees award in order to seek an award of all of the attorneys fees incurred in this matter. Although we agree that the Court properly granted our Attorneys Fees Motion, we believe that the Court should have awarded us attorneys fees in the full amount we requested, approximately $390,000, and not the amount actually awarded, $50,000. Adelman has cross-appealed in an attempt to vacate the attorneys fees award entirely. The Appellate Court heard oral argument on February 19, 2008. On March 20, 2008, the Appellate Court issued an Order Vacating Submission in response to a letter dated March 17, 2008 from the Court of Appeals in which the Court has asked to be briefed on certain additional issues. Briefs were filed by both parties on April 23, 2008. The matter has been submitted to the Court for decision and we expect a decision during or before July 2008.

Data Match Enterprises of Texas, LLC v. eHarmony.com, Inc. et al

We received a letter dated May 2, 2008, notifying us that Data Match Enterprises of Texas, LLC (Data Match) is seeking to add the Company as a defendant in a lawsuit by Data Match against several defendants, including eHarmony, Inc., Date.com, Inc., Singlesnet, Inc., Match.com LLC, Yahoo! Inc. and others. The lawsuit is filed in the United States District Court, Eastern District of Texas, Marshall Division and generally relates to the alleged infringement of a patent held by Data Match. We have not been served with a complaint regarding this lawsuit and, to our knowledge, we have not yet been added as a defendant.

The Company strongly disputes the merits of the claims asserted in both of these matters and shall vigorously defend against them.

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. The Company believes it has accrued appropriate amounts where necessary in connection with the above litigation.

9. Impairment of Goodwill

In the first quarter of 2007, the Company undertook certain marketing initiatives designed to reverse the decline in revenues for its AmericanSingles website. While partially successful, the initiatives at that time did not increase new subscriber additions to the point that subscriber levels stabilized, and management determined that spending required for the marketing initiatives was not sustainable and thus they were terminated. An analysis of the expected cash flows from the website after the first quarter 2007 initiatives were terminated resulted in expectations of future profitability for the site that were insufficient to sustain the carrying value of goodwill on the Company s balance sheet. Accordingly, the Company recorded a $1.9 million impairment expense related to the elimination of the book carrying value of goodwill under SFAS 142 *Goodwill and Other Intangible Assets* related to AmericanSingles in the first quarter of 2007.

10. Subsequent Events

Purchases of Equity Securities

On March 10, 2008, we announced the approval of an open market stock buyback program whereby the Company was authorized to repurchase up to one million shares of the Company s outstanding common stock. On March 14, 2008, we announced an increase in the size of the program to 1.5 million shares of our outstanding common stock. On May 5, 2008, we announced the completion of our stock buyback program. The Company also repurchased 600,000 shares of common stock from Jones Trading at a price of $4.18 per share for an aggregate price of $2,508,000, in a privately negotiated transaction pursuant to an agreement entered into on May 9, 2008 and completed on May 14, 2008.

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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 this 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, 2007.

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 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 and other factors described in the Risk Factors section and elsewhere in this report and in the Risk Factors section of our 2007 Annual Report.

General

As of the completion of our reorganization on July 9, 2007, the shares of Spark Networks, Inc. have been traded on the American Stock Exchange. Prior to our reorganization, we were a public limited company incorporated under the laws of England and Wales and our ordinary shares in the form of Global Depositary Shares traded on the Frankfurt Stock Exchange and in the form of American Depository Shares on the American Stock Exchange. We are a leading provider of online personals services in the United States and internationally. Our websites enable adults to meet online and participate in communities, become friends, date, form long-term relationships or marry.

Segment Reporting

During the third quarter of 2007, the Company changed its financial reporting to include data on four newly-defined operating segments: Jewish Networks, which consists of JDate.com, JDate.co.il, Cupid.co.il and their respective co-branded and private label websites; General Market Networks, which consists of AmericanSingles.com, Date.co.uk, Date.ca and their respective co-branded and private label websites; 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; and Offline & Other Businesses, which consists of revenue generated from offline activities, HurryDate events and subscriptions to HurryDate.com, and other websites and businesses. The change, in compliance with Financial Accounting Standard No. 131 Disclosures about Segments of an Enterprise and Related Information, is a result of the change to the overall revenue mix and how management views the business. We believe the new segments will provide investors with a more accurate picture of the performance of the business. Prior period segment disclosures were revised to conform to the revised segment presentation as follows:

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(in thousands)	Three Months Ended March 31, 2008	2007
Revenues		
Jewish Networks	$ 8,667	$ 8,337
General Market Networks	2,576	5,032
Other Affinity Networks	3,353	3,229
Offline & Other Businesses	426	222
Total	**$ 15,022**	**$ 16,820**
Direct Marketing		
Jewish Networks	$ 705	$ 989
General Market Networks	1,336	3,638
Other Affinity Networks	1,842	1,995
Offline & Other Businesses	189	135
Total	**$ 4,072**	**$ 6,757**
Contribution		
Jewish Networks	$ 7,962	$ 7,348
General Market Networks	1,240	1,394
Other Affinity Networks	1,511	1,234
Offline & Other Businesses	237	87
Total	**$ 10,950**	**$ 10,063**
Unallocated operating expenses	8,473	11,723
Operating income	**$ 2,477**	**$ (1,660)**

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 website 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. Prior period amounts have been reclassified to conform to current period presentation.

	Three Months Ended March 31, 2008	2007
Average Paying Subscribers		
Jewish Networks	93,411	97,124
General Market Networks	37,740	73,485
Other Affinity Networks	61,808	60,092
Offline & Other Businesses	2,366	612
Total	195,325	231,313

Average paying subscribers for the Jewish Networks segment decreased 3.8% to 93,411 for the three months ended March 31, 2008 compared to 97,124 in the same period last year. Average paying subscribers for the General Market Networks segment decreased 48.6% to 37,740 for the three months ended March 31, 2008 compared to 73,485 in the same period last year. Average paying subscribers for the Affinity Networks segment increased 2.9% to 61,808 for the three months ended March 31, 2008 compared to 60,092 in the same period last year.

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Results of Operations

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

	Three Months Ended March 31,	
	2008	2007
Net revenues	100.0 %	100.0 %
Direct marketing	27.1	40.2
Contribution margin	72.9	59.8
Operating expenses:		
Sales & Marketing	7.0	4.9
Customer Service	4.2	5.0
Technical Operations	7.1	7.1
Development	8.1	6.8
G&A	27.8	32.5
Amortization	2.2	2.0
Impairment of goodwill		11.3
Total operating expenses	56.4	69.7
Operating income	16.5	(9.9)
Interest and other expenses (income), net	(2.2)	(1.2)
Income before income taxes	18.7	(8.7)
Provision for income taxes	8.3	(0.4)
Net income	10.4 %	(8.3) %

Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007

Net Revenues

Substantially all of our net revenues are derived from subscription fees. The remainder of our net revenues, accounting for approximately 4% and 2% of net revenues for the three months ended March 31, 2008 and 2007, respectively, are attributable to certain offline events and from third party advertising on some of our websites. Revenues are 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.

Net revenues decreased 11% to $15.0 million in the first quarter of 2008 compared to $16.8 million in 2007. The majority of this decline can be attributed to the managed decline in the Company s General Market Networks segment. Net revenues for the Jewish Networks segment increased 4.0% to $8.7 million in the first quarter of 2008 compared to $8.3 million in 2007. The increase in net revenues for the Jewish Networks segment is primarily due to an increase of 14% in the one-month subscription price of JDate.com in the second quarter of 2007 and a flat average paying subscriber base relative to the first quarter of 2007. Net revenues for the General Market Networks segment decreased 48.8% to $2.6 million in the quarter ended March 31, 2008, compared to $5.0 million in 2007. The decrease in General Market Networks net revenues is due to the decrease in average paying subscribers, reflecting management s decision to acquire subscribers at acceptable profit levels. Net revenues for our Other Affinity Networks segment increased 3.8% to

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$3.4 million in the first quarter of 2008 compared to $3.2 million in 2007. The increase in net revenues for our Other Affinity Networks segment is primarily attributed to an increase in average paying subscribers to websites in the segment. Net revenues of our Offline & Other Businesses segment increased 91.9% to $426,000 in the first quarter of 2008 compared to $222,000 in 2007. The increase in net revenues is largely attributable to a full quarter of HurryDate results in the first quarter of 2008. We acquired the HurryDate business in February 2007.

Direct Marketing Expenses

Direct marketing expenses decreased 39.7% to $4.1 million in the first quarter of 2008 compared to $6.8 million in 2007. The majority of this decline can be attributed to a reduction in inefficient marketing programs associated with the General Market Networks segment. Direct marketing expenses for the Jewish Networks segment decreased 28.7% to $705,000 in the first quarter of 2008 compared to $989,000 in 2007. The decrease in marketing reflects more efficient online marketing programs and the elimination of a billboard marketing campaign. Direct marketing expenses for the General Market Networks segment decreased 63.3% to $1.3 million in the first quarter of 2008 compared to $3.6 million in the same period in 2007. The decrease reflects management s decision to pursue cost effective subscriber acquisition marketing campaigns. Direct marketing expenses for the Other Affinity Networks segment decreased 7.7% to $1.8 million for the first quarter of 2008 compared to $2.0 million in 2007, reflecting more efficient marketing programs. Direct marketing expenses for the Offline & Other Businesses segment increased 40.0 % to $189,000 for the first quarter of 2008 compared to $135,000 in the same period in 2007 reflecting the cost of a travel event in 2008 and zero in 2007. In addition, the Company recorded a full quarter of results for its HurryDate business for the first quarter of 2008 versus a partial quarter of results for 2007.

Operating Expenses

Operating expenses consist primarily of sales and marketing, customer service, technical operations, development and general and administrative expenses. Operating expenses for the first quarter of 2008 were $8.5 million, a decrease of 27% compared to $11.7 million for the first quarter of 2007. The $3.2 million decrease over the first quarter of 2007 is primarily attributable to a $1.3 million decrease in general and administrative expense and a $1.9 million impairment charge associated with the write down of the carrying value of goodwill for AmericanSingles in the first quarter of 2007. The Company did not incur an impairment charge in the first quarter of 2008. The decrease in general and administrative expense can be primarily attributed to the absence of Scheme of Arrangement costs, lower share-based compensation expense and lower credit card fees and fines in the first quarter of 2008.

Sales and Marketing. Sales and marketing expenses consist primarily of salaries for our sales and marketing personnel. Sales and marketing expenses increased 26.4% to $1.1 million in the first quarter of 2008 compared to $833,000 in the first quarter of 2007. The increase can be primarily attributed to higher consulting fees associated with our advertising sales, the use of third-party email software which was previously categorized in direct marketing expenses and higher benefits expense. Stated as a percentage of net revenues, sales and marketing expenses increased to 7.0% in the first quarter of 2008 compared to 5.0% for the same period in 2007.

Customer Service. Customer service expenses consist primarily of personnel costs associated with our customer service centers. Customer service expenses decreased 25.1% to $631,000 in the first quarter of 2008 compared to $842,000 in the first quarter of 2007. The expense decrease is primarily due to a reduction in temporary labor, consulting fees and depreciation. The lower temporary labor and consulting fees reflect greater operating efficiencies at the Company s Beverly Hills, CA and Provo, UT locations. Stated as a percentage of net revenues, customer service expenses decreased to 4.2% in the quarter ended March 31, 2008 compared to 5.0% in the same period in 2007.

Technical Operations. Technical operations expenses consist primarily of the personnel and systems necessary to support our network, Internet connectivity and other data and communication requirements. Technical operations expenses decreased 10.4% to $1.1 million in the first quarter of 2008 compared to $1.2 million in 2007. The decrease is primarily due to lower depreciation expense, offset by higher salary and benefits expense. Stated as a percentage of net revenues, technical operations expenses were flat at 7.1%.

Development. Development expenses consist primarily of costs incurred in the development, enhancement and maintenance of our websites and services. Development expenses increased 6.5% to $1.2 million in the first quarter of 2008 compared to $1.1 million in 2007. The increase can be primarily attributed to higher placement fees associated with the addition of new employees and higher stock-based compensation. Stated as a percentage of net revenues, development expenses increased to 8.1% in the first quarter of 2008 compared to 6.8% in the same period in 2007.

General and Administrative. General and administrative expenses consist primarily of corporate personnel-related costs, professional fees, credit card processing fees, and occupancy and other overhead costs. General and administrative expenses decreased 23.8% to $4.2 million in the first quarter of 2008 compared to $5.5 million in 2007. The $1.3 million decrease is primarily attributable to the absence of Scheme of Arrangement costs, lower share-based compensation expense and lower credit card fees and fines in the first quarter of 2008. Share-based compensation expense was higher in the first quarter of 2007 due to the additional cost associated with the accelerated vesting and extension of term for options granted to our former Chief Executive Officer in connection with his resignation. The lower credit card fees and fines reflect lower net revenues and the reversal of credit card fines accrued in a prior period. Stated as a percentage of net revenues, general and administrative expenses decreased to 27.8% in the first quarter of 2008 compared to 32.6% in 2007.

Amortization of Intangible Assets. Amortization expenses consist primarily of amortization of intangible assets related to previous acquisitions, primarily MingleMatch, LDSSingles and HurryDate. Amortization expense decreased 4.4% to $329,000 in the first quarter of 2008 compared to $344,000 in the first quarter of 2007.

Interest Income/Expense and Other, Net. Interest income/expense and other consist primarily of interest income associated with temporary investments in interest bearing accounts and foreign exchange gains and losses related to the intercompany loan with our wholly-owned Israeli subsidiary. Net interest income increased to $334,000 for the quarter ended March 31, 2008 from $205,000 for the same period in 2007. The increase is primarily due to a $359,000 foreign currency translation gain associated with the intercompany loan, offset by lower interest income. The lower interest income reflects a lower cash balance in the first quarter of 2008 compared to 2007 due to the repurchase of the Company s common stock.

Net Income and Earnings Per Share

Net income for the first quarter of 2008 was $1.6 million, or $0.06 per share, compared to a net loss of $1.4 million, or $(0.04) per share for 2007. The increase to net income reflects higher contribution, lower G&A expenses, and a $359,000 benefit from a currency translation adjustment, all of which were offset by a higher tax provision in the first quarter of 2008. In addition, the Company did not incur any asset impairment charges in the first quarter of 2008. Earnings per share increased due to a combination of higher net income and an approximate five million share reduction in fully diluted weighted average shares outstanding.

Liquidity and Capital Resources

As of March 31, 2008, we had cash, cash equivalents and marketable securities of $8.3 million. We have historically financed our operations with internally generated funds.

On February 14, 2008, the Company, and Spark Networks Limited, as the borrower, entered into a $30.0 million credit agreement with Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer and certain subsidiaries of the Company acting as guarantors. The credit agreement expires, and all borrowings thereunder mature and are due and payable, unless terminated earlier, on February 14, 2011, which may be extended upon six months notice and at the lender s discretion. The credit agreement provides for committed loans, swing line loans (which are loans with terms of 10 business days or less), and letters of credit. All loans may be prepaid without any prepayment penalty. The per annum interest rate under the credit agreement 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 LIBOR plus 1.50%, 1.75% and 2.00%, respectively. In the event the Company elects to borrow under a base rate loan, the corresponding interest rates are the prime rate plus 0.50%, 0.75% and 1.00%, respectively. The Company pays a 0.125% per annum commitment fee on all funds not utilized under the facility, measured on a daily basis. The credit agreement contains various

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customary affirmative and negative covenants, such as the requirement to provide financial statements and notices upon certain events, and the prohibition of the creation of additional liens, borrowings and guarantees beyond those permitted in the credit agreement. The Company is also required to maintain a consolidated leverage ratio at any time during any period of four fiscal quarters of greater than 2.00 to 1.00 for quarters through March 31, 2010 and 1.50 to 1.00 for quarters on and after June 30, 2010, and a consolidated adjusted EBITDA for each period of four consecutive fiscal quarters of $12 million through the quarter ending September 30, 2008, $13 million for the quarters ending December 31, 2008 through September 30, 2009, $14 million for the quarters ending December 31, 2009 through September 30, 2010 and $15 million for the quarters ending on and after December 31, 2010. Upon an event of default, such as failure to pay under the credit agreement, a default under any other lending arrangement, a change of control or violation of a covenant, then a default rate of 2% per annum is added to the interest rates described above. As of March 31, 2008, the Company had not made any borrowings under this credit agreement and was in material compliance with all provisions of the credit agreement.

Net cash provided by operations was $2.9 million for the three months ended March 31, 2008 and $3.0 million for the same period in 2007.

Net cash provided by investing activities was $177,000 in the first quarter of 2008 compared to net cash used in 2007 of $2.1 million. The majority of the use was the acquisition of HurryDate in February 2007.

Net cash used in financing activities was $3.6 million for the first three months of 2008 compared to $1.8 million for the same period in 2007. Cash used in financing activities in 2008 was primarily due to share repurchases totaling $3.3 million, and payments for costs associated with the revolving credit facility of approximately $284,000. Cash used in financing activities in 2007 was primarily due to share repurchases totaling $1.8 million.

We believe that our current cash and cash equivalents, marketable securities 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 utilize our revolving credit facility or raise additional funds through the issuance of debt or equity in the public or private market.

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, narrow or limited purposes. We do not have any outstanding derivative financial instruments, off-balance sheet guarantees, interest rate swap transactions or foreign currency forward contracts.

ITEM 3. QUANTITATIVE & QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relate primarily to our cash, cash equivalents and marketable securities. We have not used derivative financial instruments to mitigate such risk.

Investments in both fixed-rate and floating-rate interest-earning instruments carry a degree of interest rate risk. Fixed-rate securities may have their market values adversely impacted due to a rise in interest rates, while floating-rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates. Due to the short-term nature of our investment portfolio, and our ability to liquidate this portfolio in short order, we do not believe that a 10% increase in interest rates would have a material effect on the fair market value of our investment portfolio.

Foreign Currency Risk

Our exposure to foreign currency risk is due primarily to our international operations. Revenues and certain expenses related to our international websites are denominated in the functional currencies of the local countries they serve. Primary currencies include Israeli shekels, Canadian dollars, British pound sterling and Euros. Our foreign subsidiary in Israel conducts business in their local currency. We translate into U.S. dollars the assets and liabilities using period-end rates of exchange and revenues and expenses using average rates of exchange for the year. Any weakening of the U.S. dollar against these foreign currencies will result in increased revenue, expenses and translation gains and losses in our consolidated financial statements. Similarly, any strengthening of the U.S. dollar against these currencies will result in decreased revenues, expenses and translation gains and losses. We do not believe that a hypothetical 10% increase in foreign currency exchange rates would have a material effect on our financial statements.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

As of March 31, 2008, 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, or the Exchange Act. Based on that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2008.

(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 15d-15 under the Exchange Act that occurred during the quarter ended March 31, 2008 that has materially affected, or is reasonably likely to affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information required by this item is contained in the financial statements contained in this report under Note 8 Commitments and Contingencies Legal Proceedings and is incorporated by reference. Also, refer to our Annual Report on Form 10-K for the year ended December 31, 2007 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, 2007.

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

Purchases of Equity Securities

Beginning on March 11, 2008, we started purchasing the Company s outstanding shares under a publicly announced open market stock buyback plan authorized by the Company s board of directors on March 10, 2008 and amended on March 14, 2008 and purchased 801,229 shares, at a weighted average price of $4.09, during the first quarter of 2008. On May 5, 2008, we completed the buyback program having purchased the full 1,500,000 shares authorized under the plan. The Company also repurchased 600,000 shares of common stock from Jones Trading at a price of $4.18 per share for an aggregate price of $2,508,000, in a privately negotiated transaction pursuant to an agreement entered into on May 9, 2008 and completed on May 14, 2008.

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		Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans
March 11	March 31	801,229	4.09	801,229
Total		801,229		801,229

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

The Company repurchased 600,000 shares of common stock from Jones Trading at a price of $4.18 per share for an aggregate price of $2,508,000, in a privately negotiated transaction pursuant to an agreement entered into on May 9, 2008 and completed on May 14, 2008.

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.

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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 Zane
by: Brett Zane
Chief Financial Officer

Date: May 14, 2008

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