

SPARK NETWORKS INC
Form SC TO-C
November 12, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE TO

(Rule 14d1)

Tender Offer Statement Pursuant to Section 14(d)(1) or 13(e)(1)
of the Securities Exchange Act of 1934

SPARK NETWORKS, INC.

(Name of Subject Company (Issuer) and Filing Person (Offeror))

OPTIONS TO PURCHASE COMMON STOCK, PAR VALUE \$0.001 PER SHARE

(Title of Class of Securities)

84651P100

(CUSIP Number of Class of Securities)

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Joshua A. Kreinberg

General Counsel and Corporate Secretary

Spark Networks, Inc.

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(323) 658-3000

Copy to:

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**(Name, Address and Telephone Numbers of Person Authorized
to Receive Notices and Communications on Behalf of Filing Persons)**

Calculation of Filing Fee

Transaction Valuation*
Not Applicable

Amount of Filing Fee
Not Applicable

Check the box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid: \$
Form or Registration Number:

Filing Party:
Date Filed:

Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Check the appropriate boxes below to designate any transactions to which the statement relates:

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- third-party tender offer subject to Rule 14d-1.
- issuer tender offer subject to Rule 13e-4.
- going private transaction subject to Rule 13e-3.
- amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer: "

SPARK NETWORKS, INC.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

You are cordially invited to attend the Special Meeting of Stockholders (the *Special Meeting*) of Spark Networks, Inc., a Delaware corporation (the *Company*), to be held at the Company's principal executive offices located at 8383 Wilshire Boulevard, Suite 800, Beverly Hills, California 90211 on January 5, 2009 at 1:30 pm Pacific Standard Time.

The Special Meeting of the Company is being held for the following purposes:

1. To approve a one-time stock option repricing and exchange program under which eligible employees of the Company (including our executive officers) would be able to elect to exchange outstanding stock options issued under our equity plans for new lower-priced stock options, which would also include modifications to option vesting and term, and, with respect to executive officers' new options, would (i) include a delay of any vesting until one (1) year after the grant date with a cap on such initial vesting and (ii) conform restrictions on change of control acceleration (the *Option Exchange*); and
2. To approve an amendment to the 2007 Omnibus Incentive Plan (the *2007 Plan*), to increase by 250,000 shares the number of shares of common stock of the Company reserved for issuance and available for awards under the 2007 Plan given that (i) the Company may only grant new options under the 2007 Plan, including options replacing those originally granted under the 2000 Executive Share Option Scheme (the *2000 Scheme*) or the 2004 Share Option Scheme (the *2004 Scheme*), (ii) the shares required to effectuate the Option Exchange to replace shares largely issued under the 2000 Scheme and 2004 Scheme will exhaust nearly all of the Company's authorized share amount under the 2007 Plan, and (iii) the Company needs to maintain an amount of options under the 2007 Plan after the Option Exchange primarily for potential new hires.

The board of directors recommends a vote for the proposals listed above.

The board of directors has fixed the close of business on November 11, 2008 as the record date (the *Record Date*) for determining those stockholders who will be entitled to vote at the Special Meeting.

The following proxy statement and enclosed proxy card are being sent to each stockholder as of the Record Date. You are cordially invited to attend the Special Meeting, but if you do not expect to attend, or if you plan to attend, but desire the proxy holders to vote your shares, please date and sign your proxy card and return it in the enclosed postage paid envelope. The giving of this proxy card will not affect your right to vote in person in the event you find it convenient to attend. Please return the proxy card promptly to avoid the expense of additional proxy solicitation.

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FOR THE BOARD OF DIRECTORS

Corporate Secretary

Dated: [], 2008

Beverly Hills, California

SPARK NETWORKS, INC.

PROXY STATEMENT

For Special Meeting to be Held

January 5, 2009 at 1:30 p.m. Pacific Standard Time

This proxy statement is delivered to you by Spark Networks, Inc. (we, us, the Company, or Spark Networks), a Delaware corporation, in connection with the Special Meeting of Stockholders of the Company to be held on January 5, 2009 at 1:30 p.m. Pacific Standard Time at 8383 Wilshire Boulevard, Suite 800, Beverly Hills, California 90211 (the Special Meeting). The approximate mailing date for this proxy statement and the enclosed proxy is [], 2008.

The purpose of the Special Meeting is to seek stockholder approval of two proposals: (1) a one-time stock option repricing and exchange program under which eligible employees of the Company (including our executive officers) would be able to elect to exchange outstanding stock options issued under our equity plans for new lower-priced stock options, which would include modifications to option vesting and term, and the executive officers' new options would (i) include a delay of any vesting until one (1) year after the grant date with a cap on such initial vesting and (ii) conform restrictions on change of control acceleration (the Option Exchange); and (2) an amendment to the 2007 Omnibus Incentive Plan (the 2007 Plan), to increase by 250,000 shares the number of shares of common stock of the Company reserved for issuance and available for awards under the 2007 Plan (the 2007 Plan Amendment) given that (i) the Company may only grant new options under the 2007 Plan, including options replacing those originally granted under the 2000 Executive Share Option Scheme (the 2000 Scheme) or the 2004 Share Option Scheme (the 2004 Scheme), (ii) the shares required to effectuate the Option Exchange to replace shares largely issued under the 2000 Scheme and 2004 Scheme will exhaust nearly all of the Company's authorized share amount under the 2007 Plan, and (iii) the Company needs to maintain an amount of options under the 2007 Plan after the Option Exchange primarily for potential new hires.

If either one of these proposals is not approved by the stockholders, then we would not be able to make an offer to exchange certain options as further described in this proxy statement.

Quorum; Voting Rights

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Holders of our common stock of record at the close of business on November 11, 2008 (the Record Date) will be entitled to vote at the Special Meeting. There were 21,441,544 shares of common stock outstanding as of the Record Date. Each share of our common stock is entitled to one vote, and the presence, in person or by proxy, of holders of a majority of the outstanding shares of our common stock, is necessary to constitute a quorum for the Special Meeting. Abstentions and broker non-votes will be treated as present and entitled to vote for purposes of determining the presence of a quorum. If a quorum is not present at the Special Meeting, we expect that the Special Meeting will be adjourned to solicit additional proxies. Stockholders may not cumulate their votes.

Voting Your Proxy

Your vote is important. Your shares can be voted at the Special Meeting only if you are present in person or represented by proxy. Even if you plan to attend the Special Meeting, we urge you to vote in advance. If you choose to vote by mail, simply mark your proxy card, and then date, sign and return it in the postage-paid envelope provided.

Stockholders who hold their shares beneficially in street name through a nominee (such as a bank or broker) may be able to vote by telephone, the Internet or mail. You should follow the instructions you receive from your nominee to vote those shares. If you are a stockholder who owns shares through a nominee and attends the Special Meeting, you should bring a letter from your nominee identifying you as the beneficial owner of the shares and acknowledging that you will vote your shares.

Required Vote

You may vote in favor of or against the proposals and you may also withhold your vote as to the proposals. In order to approve each of the proposals, the affirmative vote of a majority of all of the votes cast at the Special Meeting is necessary for the approval of each of the proposals assuming a quorum is present.

Counting of Votes

If a proxy in the accompanying form is duly executed and returned, the shares represented by the proxy will be voted as directed. If no direction is given, the shares represented by the proxy will be voted **FOR** (i) approval of a one-time stock option repricing and exchange program and (ii) approval of the amendment to the 2007 Plan to increase by 250,000 shares the number of shares reserved of issuance and available for awards under the 2007 Plan. All properly executed proxies delivered pursuant to this solicitation and not revoked will be voted at the Special Meeting in accordance with the directions given. Representatives of our transfer agent will assist us in the tabulation of the votes.

Effect of Abstentions and Broker Non-Votes

An abstention is the voluntary act of not voting by a stockholder who is present at a meeting and entitled to vote. A broker non-vote occurs when a broker nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary power for that particular item and has not received instructions from the beneficial owner. Under stock exchange rules, brokers that hold shares of our common stock in street name for customers that are the beneficial owners of those shares may not give a proxy to vote those shares on certain matters without specific instructions from those customers.

Abstentions and broker non-votes will be treated as present and entitled to vote for purposes of determining the presence of a quorum.

For purposes of the approval of a one-time stock option repricing and exchange program and the amendment to the 2007 Plan to increase the number of reserved shares under the 2007 Plan, abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote requirement (i.e. they will be neither a vote for nor a vote against the proposal), although they will count toward the presence of a quorum.

Revoking Your Proxy

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Any proxy given may be revoked at any time prior to its exercise by notifying the Corporate Secretary of the Company in writing of such revocation, by duly executing and delivering another proxy bearing a later date, or by attending and voting in person at the Special Meeting. The Company's principal executive office is located at 8383 Wilshire Boulevard, Suite 800, Beverly Hills, California 90211.

Solicitation of Proxies

The cost of this solicitation of proxies will be borne by the Company. Solicitations will be made by mail. In addition, the officers and other regularly engaged employees of the Company may, in a limited number of instances, solicit proxies personally or by telephone. The Company will reimburse

banks, brokerage firms, other custodians, nominees and fiduciaries for reasonable expenses incurred in sending proxy materials to beneficial owners of the common stock of the Company.

Delivery of Proxy Materials to Households

Householding is a program, approved by the Securities and Exchange Commission (the SEC), which allows companies and intermediaries (e.g. brokers) to satisfy the delivery requirements for proxy statements and annual reports by delivering only one package of stockholder proxy material to any household at which two or more stockholders reside. If you and other residents at your mailing address own shares of our common stock in street name, your broker or bank may have notified you that your household will receive only one copy of our proxy materials. Once you have received notice from your broker that they will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement, or if you are receiving multiple copies of the proxy statement and wish to receive only one, please notify your broker if your shares are held in a brokerage account. If you hold shares of our common stock in your own name as a holder of record, householding will not apply to your shares.

Interest of Executive Officers and Directors

None of the Company's executive officers or directors has any interest in any of the matters to be acted upon at the Special Meeting, except to the extent that an executive officer is eligible to participate in the Option Exchange or may receive awards under the 2007 Plan.

Other Business

No other business is expected to be transacted at the Special Meeting. Under our Bylaws, no business may be brought before a special meeting except as specified in the notice of the special meeting.

PROPOSAL NO. 1**APPROVAL OF A ONE-TIME STOCK OPTION REPRICING AND EXCHANGE PROGRAM****Introduction**

We are seeking stockholder approval of a one-time repricing and exchange of eligible options that would allow us to cancel out-of-the-money stock options currently held by some of our employees, including our executive officers, in exchange for the issuance of stock options for the same number of shares with lower exercise prices. Due in large part to market corrections and general economic circumstances external to our business and financial condition, our stock price has fallen over the past two years, which has caused a significant number of our outstanding stock option awards to be out-of-the-money, meaning the exercise or purchase price of the option is greater than the market price of the stock. We believe, as a result of these options being out-of-the-money, the options fail to provide an appropriate incentive to employee optionees. We are proposing the one-time stock option repricing and exchange program because we believe, by re-pricing already issued equity awards with different vesting terms, we will avoid additional dilution of our equity. In addition, by repricing such options, we will more cost-effectively provide retention and incentives to our key contributors than we would by simply issuing incremental equity or paying additional cash compensation.

Overview

On November 5, 2008, the compensation committee recommended to our board of directors and our board authorized a one-time stock option repricing and exchange program (the **Option Exchange**), subject to stockholder approval. Under the proposed Option Exchange, eligible employees, including executive officers, would be able to elect to exchange outstanding eligible options to purchase shares of our common stock for new stock options with a lower exercise price (the **New Options**). Stock options will be eligible for the Option Exchange if they have an exercise price per share greater than the closing price of our common stock as reported on the NYSE Alternext on the date the stockholders approve the Option Exchange (the **Eligible Options**). The opportunity to participate in the Option Exchange will be offered to certain U.S. employees who substantially contribute to the achievement of the Company's business objectives, including our executive officers (collectively referred to as the **Eligible Optionholders**) who hold Eligible Options that were granted under the 2000 Executive Share Option Scheme, 2004 Share Option Scheme and 2007 Omnibus Incentive Plan (collectively referred to as the **Plans**). As of November 11, 2008, there were approximately 80 Eligible Optionholders. Eligible Options surrendered for exchange pursuant to the Option Exchange that were issued under the Plans will, upon the expiration of the Exchange Offer (as defined below), be exchanged for New Options granted pursuant to our 2007 Plan.

The exercise price of the New Options will be subject to a \$3.00 floor. Each New Option granted will have an exercise price per share equal to the closing price of our common stock as reported on the NYSE Alternext for the business day on which the Exchange Offer expires unless such closing price falls below \$3.00, in which case the exercise price will equal \$3.00. This floor on the exercise price was put in place to limit the amount of additional expense that will be incurred by the Company related to the repricing. The New Options granted to employees will have a term of seven (7) years, except for those granted to our Chairman of the Board and Chief Executive Officer, Adam Berger, which, consistent with the options he received when he became our Chief Executive Officer, will have a term of ten (10) years.

The initial vesting of New Options takes into consideration the prior vesting of the surrendered Eligible Options, but does not award full credit for such vesting. New Options for employees, excluding executive officers, will vest according to the following schedule: (i) a percentage will

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immediately vest on the grant date, which percentage will equal half of the percentage that the vested amount, as of the expiration date of the Exchange Offer, constitutes of the entire amount of the Eligible Option that is surrendered by such employee ; (ii) 25% of the remaining New Options will vest one (1) year after the New Options grant date; and (iii) the remaining 75% will vest quarterly in equal

installments over three (3) years after the anniversary of the New Options grant date. As an example, if an employee surrenders an Eligible Option exercisable for 500 shares, of which 200 shares are vested, then the New Option would vest as follows: (i) 100 shares of the New Option would immediately vest upon the New Option grant date, (ii) 100 shares would vest one (1) year after the New Option grant date, and (iii) 25 shares would vest quarterly thereafter.

New Options for executive officers, unlike the options for employees, will not vest at all until one (1) year after the grant date and are subject to a cap on the amount of options that will vest at such time. Any remaining amount of the New Options after the initial vesting will vest monthly thereafter. New Options for executive officers will vest one (1) year after the grant date in an amount equal to (i) a percentage (the Executive Initial Vesting Percentage) of the total amount of each New Option granted to an executive officer that is equal to the lesser of (a) a percentage that is equal to half of the percentage that the vested amount as of the expiration date of the Exchange Offer constitutes of the entire amount of the Eligible Option that is surrendered by such executive officer and (b) a percentage that is equal to half of the percentage that the vested amount constitutes of the entire amount of Eligible Options held by our Chairman of the Board and Chief Executive Officer, Adam Berger, as of the expiration date of the Exchange Offer, as calculated without regard to any Eligible Options Mr. Berger received prior to February 2007 when he entered into his employment agreement to serve as the Company's Chief Executive Officer; and (ii) 25% of the remaining unvested amount of the New Option. The remaining New Options (i.e. those left after the initial vesting described in (i) and (ii) above) will vest monthly in equal installments until four (4) years after the New Option grant date. In summary, New Options granted to executive officers will vest as follows:

The Executive Initial Vesting Percentage PLUS 25% of the remaining unvested amount vest one (1) year after the grant date, and

The remainder vests monthly in equal installments until four (4) years after the grant date.

As an example, Mr. Berger currently holds an aggregate of 1,300,000 Eligible Options (which are the options that were received no earlier than February 2007), and assuming the expiration date of the Exchange Offer is January 5, 2009, 595,833 (45.8%) of his Eligible Options will be vested as of such time. For any Eligible Option surrendered by an executive officer, the cap on the Executive Initial Vesting Percentage will be equal to approximately 22.9% (or half of the 45.8%). If an executive officer surrenders an Eligible Option for 1,000 shares of which 500 shares (50%) are vested, then the Executive Initial Vesting Percentage would be 22.9%, or 229 shares, which is the percentage that is the lesser of (i) 22.9% and (ii) 25% (i.e., half of the percentage of the vested amount of the surrendered Eligible Options held by such executive officer), and 25% of the remaining 771 shares is 193 shares. As such, one (1) year following the New Option grant date, an aggregate of 422 shares would vest. The remaining shares underlying the executive's New Option, 578 shares, would then vest monthly in equal installments until four (4) years after the New Option grant date (i.e., approximately 16 shares per month).

We believe that, if approved by the stockholders, the Option Exchange will permit us to enhance long-term stockholder value by aligning incentives among the Eligible Optionholders so they are further motivated to achieve our strategic, operational and financial goals.

Under the listing rules of NYSE Alternext, stockholder approval is required in order for us to implement the Option Exchange. If our stockholders approve this proposal, our board of directors intends to set the expiration date of the Exchange Offer for the day of the Special Meeting. If we do not obtain stockholder approval of this proposal, we will not be able to implement the Option Exchange. This proposal must receive a FOR vote from the holders of a majority of votes cast either in person or by proxy on the proposal. Abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote requirement (i.e. they will be neither a vote for nor a vote against the proposal), although they will count toward the presence of a quorum.

Our board of directors unanimously recommends a vote FOR this proposal.

Reasons for the Option Exchange

We believe that an effective and competitive employee incentive program is imperative for the future growth and success of our business. We rely on highly skilled and educated technical and managerial employees to implement our strategic initiatives, expand and develop our business, and satisfy customer needs. Competition for these types of employees is intense and many companies use stock options as a means of attracting, motivating and retaining their best employees. At Spark Networks, stock options constitute a key part of our incentive and retention programs because our board of directors believes that equity compensation encourages employees to act like owners of the business, motivating them to work toward our success and rewarding their contributions by allowing them to benefit from increases in the value of our shares.

Many of our employees now hold stock options with exercise prices significantly higher than the current market price of our common stock. For example, on November 11, 2008, the closing price of our common stock on the NYSE Alternext was \$2.94 per share and the weighted average exercise price of Eligible Options was \$5.63. Consequently, as of November 11, 2008, approximately 3,113,200 shares of outstanding stock options held by Eligible Optionholders were out-of-the-money, meaning that the exercise price of the outstanding stock option was less than the market price for our stock. Although we continue to believe that stock options are an important component of our employees' total compensation, many of our employees view their existing options as having little or no value due to the difference between the exercise prices and the current market price of our common stock. As a result, for many employees, these options are ineffective at providing the incentives and retention value that our board believes are necessary to motivate our management and our employees to achieve our strategic, operational and financial goals.

Consideration of Alternatives

When considering how best to continue to incentivize and reward our employees who have out-of-the-money options, we considered several alternatives:

Increase cash compensation. To replace equity incentives, we considered that we could substantially increase base and target bonus compensation. However, significant increases in cash compensation would substantially reduce our cash flow from operations, which would adversely affect our business and operating results.

Grant additional equity compensation. We generally consider making equity grants of stock options to our employees on a monthly basis in order to keep total employee compensation packages competitive with those of our peer companies from year to year. In addition to this year's equity grants, we considered granting employees special supplemental stock option grants at current market prices in order to restore the value of previously granted stock options that are now out-of-the-money. However, such supplemental option grants would substantially increase our overhang and potential dilution to our stockholders and would also decrease our reported earnings, which could negatively impact our stock price.

Implement Option Exchange. Finally, we considered implementing a one-time stock option repricing and exchange program. We determined that the Option Exchange pursuant to which employees could exchange stock options with an exercise price greater than the closing price of our common stock as reported on the NYSE Alternext on the date the stockholders approve the Option Exchange for stock options covering the same number of shares with different vesting requirements and with an exercise price equal to the greater of the Market Price and \$3.00 was most attractive for a number of reasons, including the following:

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Reasonable, Balanced Incentives. Under the Option Exchange, Eligible Optionholders would be able to surrender certain out-of-the-money options for options covering the same number of shares. The exercise price of the New Options will be subject to a \$3.00 floor. Each New Option granted will have an exercise price per share equal to the closing price of our common stock as reported on

the NYSE Alternext for the business day on which the Exchange Offer expires unless such closing price falls below \$3.00, in which case the exercise price will equal \$3.00. This floor on the exercise price was put in place to limit the amount of additional expense that will be incurred by the Company related to the repricing.

The initial vesting of New Options takes into consideration the prior vesting of the surrendered Eligible Options, but does not award full credit for such vesting. New Options for employees, excluding executive officers, will vest according to the following schedule: (i) a percentage will immediately vest on the grant date, which percentage will equal half of the percentage that the vested amount as of the expiration date of the Exchange Offer constitutes of the entire amount of the Eligible Option that is surrendered by such employee; (ii) 25% of the remaining New Options will vest one (1) year after the New Options grant date; and (iii) the remaining 75% will vest quarterly in equal installments over three (3) years after the anniversary of the New Options grant date. As an example, if an employee surrenders an Eligible Option exercisable for 500 shares, of which 200 shares are vested, then the New Option would vest as follows: (i) 100 shares of the New Option would immediately vest upon the New Option grant date, (ii) 100 shares would vest one (1) year after the New Option grant date, and (iii) 25 shares would vest quarterly thereafter.

New Options for executive officers, unlike the options for employees, will not vest at all until one (1) year after the grant date and are subject to a cap on the amount of options that will vest at such time. Any remaining amount of the New Options after the initial vesting will vest monthly thereafter. New Options for executive officers will vest one (1) year after the grant date in an amount equal to (i) a percentage (the Executive Initial Vesting Percentage) of the total amount of each New Option granted to an executive officer that is equal to the lesser of (a) a percentage that is equal to half of the percentage that the vested amount as of the expiration date of the Exchange Offer constitutes of the entire amount of the Eligible Option that is surrendered by such executive officer and (b) a percentage that is equal to half of the percentage that the vested amount constitutes of the entire amount of Eligible Options held by our Chairman of the Board and Chief Executive Officer, Adam Berger, as of the expiration date of the Exchange Offer, as calculated without regard to any Eligible Options Mr. Berger received prior to February 2007 when he entered into his employment agreement to serve as the Company's Chief Executive Officer; and (ii) 25% of the remaining unvested amount of the New Option. The remaining New Options (i.e. those left after the initial vesting described in (i) and (ii) above) will vest monthly in equal installments until four (4) years after the New Option grant date.

Enhanced Long-Term Stockholder Value. We believe that ultimately the Option Exchange will enhance long-term stockholder value by restoring competitive incentives to the Eligible Optionholders so they are further motivated to achieve our strategic, operational and financial goals, as exercise prices significantly in excess of the market price of our common stock undermine the effectiveness of options as employee performance and retention incentives.

Reduced Pressure for Additional Grants. If we are unable to implement the Option Exchange, we may be forced to issue additional options to our employees at current market prices, increasing our overhang. These grants would more quickly exhaust the current pool of options available for future grants under the Plans and would also result in decreased reported earnings, which could negatively impact our stock price.

Participation by Our Executive Officers. Our executive officers work closely as a team and are expected to be among the primary drivers of the strategic and operational initiatives we have implemented to advance the creation of long-term stockholder value. As a result, the retention and motivation of our executive officers are critical to Spark Network's long-term success. Accordingly, we have elected to include executive officers as Eligible Optionholders in the Option Exchange.

Description of the Option Exchange

Implementing the Option Exchange. If the Option Exchange is approved by the stockholders, it is the board of directors' intent that Eligible Optionholders who are offered the opportunity to participate in the program under a tender offer (the Exchange Offer) that will be filed with the Securities and Exchange Commission (the SEC) shortly after the filing of this proxy statement will be able to complete their exchange promptly following the Special Meeting. From the time the Exchange Offer commences, the Eligible Optionholders will be given at least twenty (20) business days to make an election to surrender for cancellation all or a portion of their Eligible Options on a grant-by-grant basis in exchange for New Options. The New Options will be issued on the day the Exchange Offer expires, which we expect will be on or about January 5, 2009. Even if the Option Exchange is approved by our stockholders, our board will retain the authority, in its sole discretion, to terminate or postpone the Option Exchange, at any time prior to the expiration of the Exchange Offer or to exclude certain Eligible Options or Eligible Optionholders from participating in the Option Exchange due to tax, regulatory or accounting reasons or because participation would be inadvisable or impractical. Stockholder approval of the Option Exchange applies only to this exchange of options. If we were to implement a stock option exchange in the future, we would once again need to seek stockholder approval.

Outstanding Options Eligible for the Option Exchange. To be eligible for exchange, an option must have an exercise price that is greater than the closing price of our common stock as reported on the NYSE Alternext on the date the stockholders approve the Option Exchange. As of November 11, 2008, options to purchase approximately 3,648,869 shares of our common stock were outstanding, of which options to purchase approximately 3,113,200 shares, would be eligible for exchange under the Option Exchange.

Eligibility. The Option Exchange will be open to the Eligible Optionholders, including our executive officers, who hold Eligible Options. To be eligible, an employee must be employed by us at the time the Exchange Offer commences. Additionally, in order to receive the New Options, an Eligible Optionholder who surrenders his or her Eligible Options for exchange must be an employee on the date the New Options are granted. As of November 11, 2008, there were approximately 80 Eligible Optionholders.

The following table shows the number of shares underlying outstanding Eligible Options in each exercise price range as of November 11, 2008:

Exercise Price Range	Maximum Number of Shares Underlying	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)
\$4.06 - \$4.85	542,500	\$ 4.29	6.1
\$5.07 - \$5.99	1,708,200	\$ 5.49	7.2
\$6.00 - \$6.81	618,500	\$ 6.45	5.2
\$6.99 - \$10.13	244,000	\$ 7.49	3.5
Total	3,113,200	\$ 5.63	6.3

Election to Participate. Participation in the Option Exchange will be voluntary. Eligible Optionholders will be permitted to exchange all or none of their Eligible Options for New Options on a grant-by-grant basis, meaning that an Eligible Optionholder who holds more than one Eligible

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Option need not surrender every Eligible Option he or she holds, but if any part of a single Eligible Option is surrendered, the entire Eligible Option must be surrendered.

Exercise Price of New Options. The exercise price of the New Options will be subject to a \$3.00 floor. Each New Option granted will have an exercise price per share equal to the closing price of our common stock as reported on the NYSE Alternext for the business day on which the Exchange Offer expires unless such closing price falls below \$3.00, in which case the exercise price will equal \$3.00. This floor on the exercise price was put in place to limit the amount of additional expense that will be incurred by the Company related to the repricing.

Vesting of New Options. The initial vesting of New Options takes into consideration the prior vesting of the surrendered Eligible Options, but does not award full credit for such vesting. New Options for employees, excluding executive officers, will vest according to the following schedule: (i) a percentage will immediately vest on the grant date, which percentage will equal half of the percentage that the vested amount as of the expiration date of the Exchange Offer constitutes of the entire amount of the Eligible Option that is surrendered by such employee ; (ii) 25% of the remaining New Options will vest one (1) year after the New Options grant date; and (iii) the remaining 75% will vest quarterly in equal installments over three (3) years after the anniversary of the New Options grant date. As an example, if an employee surrenders an Eligible Option exercisable for 500 shares, of which 200 shares are vested, then the New Option would vest as follows: (i) 100 shares of the New Option would immediately vest upon the New Option grant date, (ii) 100 shares would vest one (1) year after the New Option grant date, and (iii) 25 shares would vest quarterly thereafter.

New Options for executive officers, unlike the options for employees, will not vest at all until one (1) year after the grant date and are subject to a cap on the amount of options that will vest at such time. Any remaining amount of the New Options after the initial vesting will vest monthly thereafter. New Options for executive officers will vest one (1) year after the grant date in an amount equal to (i) a percentage (the Executive Initial Vesting Percentage) of the total amount of each New Option granted to an executive officer that is equal to the lesser of (a) a percentage that is equal to half of the percentage that the vested amount as of the expiration date of the Exchange Offer constitutes of the entire amount of the Eligible Option that is surrendered by such executive officer and (b) a percentage that is equal to half of the percentage that the vested amount constitutes of the entire amount of Eligible Options held by our Chairman of the Board and Chief Executive Officer, Adam Berger, as of the expiration date of the Exchange Offer, as calculated without regard to any Eligible Options Mr. Berger received prior to February 2007 when he entered into his employment agreement to serve as the Company's Chief Executive Officer; and (ii) 25% of the remaining unvested amount of the New Option. The remaining New Options (i.e. those left after the initial vesting described in (i) and (ii) above) will vest monthly in equal installments until four (4) years after the New Option grant date. In summary, New Options granted to executive officers will vest as follows:

The Executive Initial Vesting Percentage PLUS 25% of the remaining unvested amount vest one (1) year after the grant date, and

The remainder vests monthly in equal installments until four (4) years after the grant date.

As an example, Mr. Berger currently holds an aggregate of 1,300,000 Eligible Options (which are the options that were received no earlier than February 2007), and assuming the expiration date of the Exchange Offer is January 5, 2009, 595,833 (45.8%) of his Eligible Options will be vested as of such time. For any Eligible Option surrendered by an executive officer, the cap on the Executive Initial Vesting Percentage will be equal to approximately 22.9% (or half of the 45.8%). If an executive officer surrenders an Eligible Option for 1,000 shares of which 500 shares (50%) are vested, then the Executive Initial Vesting Percentage would be 22.9%, or 229 shares, which is the percentage that is the lesser of (i) 22.9% and (ii) 25% (i.e., half of the percentage of the vested amount of the surrendered Eligible Options held by such executive officer), and 25% of the remaining 771 shares is 193 shares. As such, one (1) year following the New Option grant date, an aggregate of 422 shares would vest. The remaining shares underlying the executive's New Option, 578 shares, would then vest monthly in equal installments until four (4) years after the New Option grant date (i.e., approximately 16 shares per month).

We expect to grant the New Options on the day the Exchange Offer expires. If the expiration date is extended, then the New Option grant date will be similarly extended.

Term of the New Options. The New Options granted to employees will have a term of seven (7) years, except for those granted to our Chairman of the Board and Chief Executive Officer, Adam Berger, which, consistent with the options he received when he became our Chief Executive Officer, will have a term of ten (10) years.

Change of Control Provisions. Any New Options granted to our executive officers will have the same change of control provision that is currently included in the Eligible Options surrendered by such executive officer. However, to the extent any such change of control provisions do not currently include a restriction that 50% of the cash proceeds of options that are accelerated on a change of control be deposited into escrow to be released upon the earlier of the one-year anniversary of the change of control or upon termination without cause or resignation for good reason, one will be added as part of the Exchange Offer. The effect of this is that any New Options replacing the 250,000 Eligible Options granted to Gregory R. Liberman on October 25, 2004 and December 4, 2006 and the 120,000 Eligible Options granted to Joshua A. Kreinberg on April 6, 2006 and February 5, 2007, to the extent that they are surrendered, will include new change of control provisions. Those New Options granted to Mr. Liberman will have the same change of control provision as set forth in his September 2007 option grant, and those New Options granted to Mr. Kreinberg will have the same change of control provision as set forth in his Executive Employment Agreement dated July 2, 2007.

Any new options granted to our employees, other than executive officers, will have the same change of control provision that is currently included in the eligible options surrendered by such employee. The Company, however, is in the process of seeking approval from its option holders to modify the change of control provisions in the 2000 Executive Share Option Scheme (the 2000 Scheme) and 2004 Share Option Scheme (the 2004 Scheme) so that those provisions are consistent with the provisions set forth in the 2007 Plan. To the extent the option holders approve such modifications, the change of control provisions in all of the Company's options (other than those granted to the executive officers), including the existing options and the New Options granted to employees replacing Eligible Options that were granted under the 2000 Scheme or 2004 Scheme, will be substantially the same as provided in the 2007 Plan. Please see Summary of the 2007 Omnibus Incentive Plan Change of Control under Proposal No. 2 for a summary of the change of control provision provided in the 2007 Plan.

Other Terms and Conditions of the New Options. The other terms and conditions of the New Options will be set forth in an option agreement to be entered into as of the New Option grant date. Any additional terms and conditions will be comparable to the other terms and conditions of the Eligible Options. All New Options will be nonstatutory stock options granted under our 2007 Plan, regardless of the tax status of the Eligible Options tendered for exchange, except for a portion of the New Options granted to our Chairman of the Board and Chief Executive Officer, Adam Berger, which, consistent with the status of the Eligible Options he currently holds, will be incentive stock options granted under our 2007 Plan (to the extent such options satisfy the requirements of Section 422 of the Internal Revenue Code).

Return of Eligible Options Surrendered. Consistent with the terms of the 2007 Plan, shares subject to Eligible Options issued under the 2007 Plan surrendered in the Option Exchange will return to the pool of shares available for grant under the 2007 Plan. Shares underlying Eligible Options that were granted under the 2000 Scheme or 2004 Scheme will not be returned to those plans for future issuance as those plans are no longer used by the Company. Instead, New Options issued in exchange for Eligible Options that were granted under the 2000 Scheme or the 2004 Scheme will be issued under the 2007 Plan. Thus, the pool of shares available for the grant of future awards under the 2007 Plan will be decreased by that number of shares equal to the difference between (a) the number of shares underlying New Options issued under the 2007 Plan and (b) the number of shares underlying surrendered Eligible Options issued under the 2007 Plan.

Accounting Treatment. We have adopted the provisions of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (Revised), or FAS 123(R), regarding accounting for share-based payments. Under FAS 123(R), in addition to the remaining unrecognized expense of the Eligible Options, if any, that is required to be recognized under FAS 123R, we will recognize the incremental compensation cost of the stock options granted in the Option Exchange. The incremental compensation cost will be measured as the excess, if any, of the fair value of each New Option granted to employees in exchange for surrendered Eligible Options, measured as of the date the New Options are granted, over the fair value of the Eligible Options surrendered in exchange for the New Options, measured immediately prior to the cancellation. The sum of the remaining unrecognized expense for

the Eligible Options and the incremental compensation cost of the New Options will be recognized ratably over the vesting period of the New Options. As would be the case with Eligible Options, in the event that any of the New Options are forfeited prior to their vesting due to termination of service, the compensation cost for the forfeited New Options will not be recognized.

U.S. Federal Income Tax Consequences. The following is a summary of the anticipated material U.S. federal income tax consequences of participating in the Option Exchange. A more detailed summary of the applicable tax considerations to Eligible Optionholders will be provided in the Exchange Offer. The tax consequences of the Option Exchange are not entirely certain, however, and the Internal Revenue Service is not precluded from adopting a contrary position, and the law and regulations themselves are subject to change. We believe the exchange of Eligible Options for New Options pursuant to the Option Exchange should be treated as a non-taxable exchange, and no income should be recognized for U.S. federal income tax purposes by us or our employees upon the grant of the New Options. To the extent that the New Options issued under the Option Exchange will qualify as incentive stock options under Section 422 of the Internal Revenue Code, the Eligible Optionholder will not have any taxable income upon exercise of the New Options if the Eligible Optionholder disposes of the exercised shares more than two years after the date of grant and more than one year after the exercise of the option (the required statutory holding period). In that case, (a) the Eligible Optionholder will recognize long-term capital gain or loss, as the case may be, equal to the difference between the selling price and the option exercise price; and (b) the Company will not be entitled to a deduction with respect to the shares of stock so issued. If the holding period requirements are not met or any other conditions of Section 422 are not satisfied, then any gain realized upon disposition will be taxed to the Eligible Optionholder as ordinary income to the extent of the excess of the lesser of (i) the fair market value of the shares at the time of exercise reduced by the option exercise price, and (ii) the gain on the sale. In addition, the Company generally will be entitled to a tax deduction equal to the amount of income recognized by the Eligible Optionholder.

To the extent that the New Options issued under the Option Exchange will be nonstatutory stock options, upon exercise of the New Options, the Eligible Optionholder will recognize ordinary income equal to the excess, if any, of the fair market value of the purchased shares on the exercise date over the exercise price paid for those shares. If the Eligible Optionholder is an employee of Spark Networks, the ordinary income will be subject to income tax withholding by Spark Networks. Upon disposition of the stock, the Eligible Optionholder will recognize a capital gain or loss (which will be long-or short-term depending upon whether the stock was held for more than one year) equal to the difference between the selling price and the sum of the amount paid for the stock plus any amount recognized as ordinary income upon acquisition (or vesting) of the stock. All holders of Eligible Options are urged to consult their own tax advisors regarding the tax treatment of participating in the Option Exchange under all applicable laws prior to participating in the Option Exchange.

Potential Modifications to Terms to Comply with Governmental Requirements. The terms of the Option Exchange will be described in the Exchange Offer that we will file with the SEC. Although we do not anticipate that the SEC will require us to modify the terms significantly, it is possible we will need to alter the terms of the Option Exchange, including an extension of the period we will keep the Option Exchange open, to comply with comments from the SEC. Changes in the terms of the Option Exchange may also be required for tax purposes for Eligible Optionholders in the United States as the tax treatment of the Option Exchange is not entirely certain.

Effect on Stockholders

We are not able to predict the impact the Option Exchange will have on your interests as a stockholder, as we are unable to predict how many Eligible Optionholders will exchange their Eligible Options or what the future market price of our common stock will be on the date that the New Options are granted. We expect to recognize incremental compensation expense from the Option Exchange. In addition, the Option Exchange is intended to reduce our need to issue supplemental stock options in the future to remain competitive with other employers.

Interests of Our Directors and Executive Officers in the Option Exchange

The following table shows the number of shares subject to Eligible Options held by our executive officers (as such term is defined in Section 16 of the Securities Exchange Act of 1934, as amended, and Rule 16a-1 thereunder) as of November 11, 2008:

Name of Executive Officer	Title	Maximum Number of Shares Underlying Eligible Options	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)
Adam S. Berger	Chairman of the Board and Chief Executive Officer	1,350,000	\$ 5.67	8.14
Gregory R. Liberman	President and Chief Operating Officer	357,000	\$ 5.56	4.17
Brett A. Zane	Chief Financial Officer	240,000	\$ 4.35	6.12
Gregory J. Franchina	Chief Information Officer	275,000	\$ 5.51	5.57
Joshua A. Kreinberg	General Counsel and Corporate Secretary	190,000	\$ 5.89	4.96

New Plan Benefits

The following table shows the maximum number of New Options that may be issued to each of our executive officers, our executive officers as a group and our employees as a group pursuant to the Option Exchange and the dollar values for the New Options assuming that Market Price of our common stock is \$3.00 at the date of grant:

Name and Position	Dollar Value (\$)	Number of New Options
Adam S. Berger, Chairman of the Board and Chief Executive Officer	\$ 4,050,000	1,350,000
Gregory R. Liberman, President and Chief Operating Officer	1,071,000	357,000
Brett A. Zane, Chief Financial Officer	720,000	240,000
Gregory J. Franchina, Chief Information Officer	825,000	275,000
Joshua A. Kreinberg, General Counsel and Corporate Secretary	570,000	190,000
All executive officers as a group	7,236,000	2,412,000
All employees as a group	\$ 9,339,600	3,113,200

Because participation in the Exchange Offer is voluntary, the benefits or amounts that will be received by any Eligible Optionholder or groups of Eligible Optionholders, if the proposal is approved, are not currently determinable. None of our non-executive directors will be eligible to participate in the Exchange Offer. The maximum number of shares underlying options that would be cancelled would be 3,113,200, and the maximum number of shares underlying the new stock options that would be granted would be 3,113,200 shares.

Vote Required

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You may vote in favor or against the proposal and you may also withhold your vote as to the proposal. In order to approve the proposal, the affirmative vote of a majority of all of the votes cast at the Special Meeting is necessary for the approval of the Option Exchange assuming a quorum is present. Completion of the Exchange Offer is therefore contingent upon stockholder approval of the proposal. For purposes of the approval of the Option Exchange, abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote, although they will count toward the presence of a quorum.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF
A ONE-TIME STOCK OPTION REPRICING AND EXCHANGE PROGRAM.**

PROPOSAL NO. 2**APPROVAL AND ADOPTION OF THE AMENDMENT TO THE 2007 OMNIBUS INCENTIVE PLAN
TO INCREASE THE NUMBER OF SHARES AUTHORIZED FOR ISSUANCE UNDER THE PLAN****Introduction**

Pursuant to the Spark Networks, Inc. 2007 Omnibus Incentive Plan, effective as of July 9, 2007 (the 2007 Plan), Spark Networks initially reserved 2,500,000 shares of its common stock for issuance to executive officers, directors, employees and consultants of Spark Networks in the form of equity awards. As of November 11, 2008, 729,000 options were outstanding under the 2007 Plan. On November 5, 2008 the Board of Directors approved an amendment to the 2007 Plan to increase the number of shares of common stock reserved under the 2007 Plan by 250,000 shares, which, subject to approval by the stockholders of this proposal and taking account of the annual increase in shares available for issuance as of January 1, 2009 (described below), will increase the number of shares available to be issued under the 2007 Plan to approximately 3,607,661 shares of common stock (the 2007 Plan Amendment). Because the shares underlying Eligible Options that were granted under the 2000 Executive Share Option Scheme (the 2000 Scheme) and 2004 Share Option Scheme (the 2004 Scheme) will not be returned to those plans for future issuance as those plans are no longer used by the Company, the Board of Directors believes that it is in the best interests of Spark Networks to approve the 2007 Plan Amendment so that there are sufficient shares available under the 2007 Plan to cover the issuance of the New Options in accordance with the Option Exchange described above and so that we can continue to attract and retain the services of those persons believed to be essential to our growth and financial success. Assuming all of the Eligible Participants elect to participate in the Option Exchange, the 2007 Plan Amendment will allow the Company an additional approximately 300,000 shares reserved for issuance in excess of those needed for the Option Exchange.

The 2007 Plan also includes a provision by which, beginning on the first day of the Company's fiscal year beginning in calendar year 2009, the number of shares reserved and available for issuance will be increased by an amount equal to the lesser of (i) 2,000,000 shares, (ii) four percent (4%) of the number of outstanding shares of Company common stock on the last day of the immediately preceding fiscal year or (iii) an amount determined by the board (the Evergreen Provision). Accordingly, on January 1, 2009, assuming there are 21,441,544 outstanding shares of the Company common stock on December 31, 2008, the number of shares available for issuance under the 2007 Plan will be increased by approximately 857,661 shares (four percent (4%) of 21,441,544 shares), which would increase the total number of shares available for issuance under the 2007 Plan pursuant to the Evergreen Provision to approximately 3,357,661 shares. Therefore, upon stockholder approval of the 2007 Plan Amendment to increase the number of shares reserved under the 2007 Plan by 250,000 shares, the total number of shares reserved for issuance under the 2007 Plan will be approximately 3,607,661 shares as of January 1, 2009.

As of November 11, 2008, there were 3,113,200 Eligible Options, of which 556,500 were issued under the 2007 Plan and 2,556,700 were issued under the 2000 Scheme and 2004 Scheme. Also, as of November 11, 2008, there were 172,500 options outstanding under the 2007 Plan that were not Eligible Options. Accordingly, assuming all Eligible Options are surrendered, there would be approximately 321,961 shares available for issuance under the 2007 Plan (until the amount is increased in 2010 pursuant to the Evergreen Provision).

The proposed 2007 Plan Amendment to increase by 250,000 shares the number of shares available for issuance under the 2007 Plan will not affect or amend the Evergreen Provision. The proposed 2007 Plan Amendment will solely increase the number of shares initially reserved for issuance under the 2007 Plan and the Evergreen Provision will remain unchanged and in effect upon the approval of the proposed 2007 Plan Amendment.

Summary of the 2007 Omnibus Incentive Plan

Effective July 9, 2007, Spark Networks adopted the Spark Networks, Inc. 2007 Omnibus Incentive Plan which is a long-term stock incentive plan intended to facilitate the continued use of equity- and cash-

based incentives and rewards for employees, directors and consultants of Spark Networks and its affiliates. As of November 11, 2008, we had outstanding options under the 2007 Plan to purchase an aggregate of 729,000 shares of our common stock at per share exercise prices ranging from \$2.99 to \$5.49.

Administration

The 2007 Plan is administered by the Compensation Committee of the Company's board of directors. The Compensation Committee has the authority to determine, within the limits of the express provisions of the 2007 Plan, the individuals to whom awards will be granted; the nature, amount and terms of such awards; and the objectives and conditions for earning such awards. The Compensation Committee generally has discretion to delegate its authority under the 2007 Plan to another committee of the board of directors or a subcommittee, or to such other party or parties, including officers of the Company, as the Compensation Committee deems appropriate.

Types of Awards

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.

Stock Options. The Compensation Committee may grant to a participant options to purchase Company common stock that qualify as incentive stock options for purposes of Section 422 of the Code (incentive stock options), options that do not qualify as incentive stock options (non-qualified stock options) or a combination thereof. The terms and conditions of stock option grants, including the quantity, price, vesting periods, and other conditions on exercise will be determined by the Compensation Committee.

The exercise price for stock options will be determined by the Compensation Committee in its discretion, but may not be less than 100% of the closing sale price of one share of the Company's common stock on the NYSE Alternext (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.

Stock options must be exercised within a period fixed by the Compensation Committee that may not exceed ten years from the date of grant, except that 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 period may not exceed five years. The 2007 Plan provides for earlier termination of stock options upon the participant's termination of service, unless extended by the Compensation Committee, but in no event may the options be exercised after the scheduled expiration date of the options.

At the Compensation Committee's discretion, payment for shares of common stock on the exercise of stock options may be made in cash, shares of the Company's common stock held by the participant or in any other form of consideration acceptable to the Compensation Committee (including one or more forms of cashless exercise).

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Stock Appreciation Rights. The Compensation Committee may grant to a participant an award of SARs, which entitles the participant to receive, upon its exercise, a payment equal to (i) the excess of the fair market value of a share of common stock on the exercise date over the SAR exercise price, times (ii) the number of shares of common stock with respect to which the SAR is exercised.

The exercise price for a SAR 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 date on which the SAR is granted. Upon exercise of a SAR, payment may be made in cash, shares of

the Company's common stock held by the participant or in any other form of consideration acceptable to the Compensation Committee (including one or more forms of cashless exercise). SARs must be exercised within a period fixed by the Compensation Committee that may not exceed ten years from the date of grant.

Restricted Shares and Restricted Units. The Compensation Committee may award to a participant shares of common stock subject to specified restrictions (restricted shares). Restricted shares are subject to forfeiture if the participant does not meet certain conditions such as continued employment over a specified forfeiture period and/or the attainment of specified performance targets over the forfeiture period.

The Compensation Committee also may award to a participant units representing the right to receive shares of common stock in the future subject to the achievement of one or more goals relating to the completion of service by the participant and/or the achievement of performance or other objectives (restricted units). The terms and conditions of restricted share and restricted unit awards are determined by the Compensation Committee.

For participants who are subject to Section 162(m) of the Code, the performance targets described in the preceding two paragraphs may be established by the Compensation Committee, in its discretion, based on one or more of the following measures (the Performance Goals):

Revenue

Earnings before interest, taxes, depreciation, amortization (ebitda) and share-based compensation

Earnings before interest, taxes, depreciation, amortization (ebitda) and share-based compensation and impairment charges (adjusted ebitda)

Contribution margin

Operating profit

Earnings per share

Operating margins

Return on total equity or total capital

Cash flow from operating activities and total shareholder return

Operating income

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Operating profit (earnings from continuing operations before interest, non-operating income or expense, and taxes)

Return on investment or working capital

Return on stockholders' equity

Economic value added (the amount, if any, by which net operating profit after tax exceeds a reference cost of capital)

Quantifiable