

SPARK NETWORKS INC
Form PREC14A
April 17, 2014

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

SPARK NETWORKS, INC.

(Name of Registrant as Specified In Its Charter)

JOHN H. LEWIS

OSMIUM PARTNERS, LLC

OSMIUM CAPITAL, LP

OSMIUM CAPITAL II, LP

OSMIUM SPARTAN, LP

OSMIUM DIAMOND, LP

STEPHEN J. DAVIS

MICHAEL J. MCCONNELL

WALTER L. TUREK

(Name of Person(s) Filing Proxy Statement, if Other Than The Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

Fee paid previously with preliminary materials.

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

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

PRELIMINARY COPY SUBJECT TO COMPLETION

DATED APRIL [], 2014

SPARK NETWORKS, INC.

PROXY STATEMENT

OF

OSMIUM PARTNERS, LLC

PLEASE SIGN, DATE AND MAIL THE ENCLOSED GOLD PROXY CARD TODAY

This Proxy Statement and the enclosed **GOLD** proxy card (the Proxy Card or Proxy) are being furnished by (1) Osmium Capital, LP, a Delaware limited partnership (Fund I); (2) Osmium Capital II, LP, a Delaware limited partnership (Fund II); (3) Osmium Spartan, LP, a Delaware limited partnership (Fund III); (4) Osmium Diamond, LP (Fund IV), and collectively with Fund I, Fund II, and Fund III, the Funds); (5) Osmium Partners, LLC, a Delaware limited liability company (Osmium Partners); (6) John H. Lewis, a United States citizen (Mr. Lewis, Osmium Partners and the Funds, collectively, Osmium or the Osmium Parties); (7) Stephen J. Davis, a United States citizen; (8) Michael J. McConnell, a United States citizen; and (9) Walter L. Turek, a United States citizen (Mr. Turek with Messrs. Davis, Lewis and McConnell, collectively, the Stockholder Nominees); and the Stockholder Nominees with the Osmium Parties, the Participants, we, or us) in connection with the solicitation of proxies (the Proxy Solicitation from the stockholders of Spark Networks, Inc. (Spark or the Company).

We are nominating four highly qualified individuals for election and submitting two corporate governance-related proposals. In our view, and as further discussed in this Proxy Statement, the current Board of Directors (the Board) has overseen years of failure: failure of management to lead effectively, failure in operational results, failure to realize the potential of the Company s many assets, failure to provide stockholders with necessary key metrics, and failure to work constructively with stockholders. Instead of addressing these failures, the Board has rewarded management with a contract extension. Eight years is enough. It is time for action. We urge stockholders to put new leadership in place to execute our six-part action plan.

We ask for your support at the Company s upcoming 2014 Annual Meeting of Stockholders to be held at 11355 W. Olympic Blvd., Los Angeles, California on June 18, 2014 at 9:00 a.m. Pacific Daylight Time (including any adjournment or postponement thereof and any meeting which may be called in lieu thereof, the Annual Meeting). Specifically, we are seeking your support with respect to the following (each, a Proposal and, collectively, the Proposals):

1.

Edgar Filing: SPARK NETWORKS INC - Form PREC14A

To elect the Osmium Parties four independent director nominees, Stephen J. Davis, John H. Lewis, Michael J. McConnell and Walter L. Turek, to serve as directors on the Board until the 2015 annual meeting of stockholders and until their respective successors are duly elected;

2. To ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm of the Company for the year ending December 31, 2014;
3. To consider and act upon a stockholder proposal regarding poison pills, if properly presented at the Annual Meeting;
4. To approve a stockholder proposal to amend the Company's Amended and Restated Bylaws to permit stockholders to call special meetings of stockholders, if properly presented at the Annual Meeting;
5. To approve a stockholder proposal to amend the Company's Amended and Restated Bylaws to allow beneficial stockholders to submit proposals and nominations for director under the Company's Amended and Restated Bylaws, if properly presented at the Annual Meeting; and
6. To transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

We are seeking to change a majority of the Board. Through this Proxy Statement and enclosed **GOLD** Proxy Card, we are soliciting proxies to elect the Stockholder Nominees. The Board is currently composed of six authorized directors, all of whom are up for election at the Annual Meeting. At the time of our stockholder nominations, which were submitted just prior to the Company's deadline in its Amended and Restated Bylaws, the size of the Board was four directors, and we nominated four nominees – the maximum number that we could nominate for the Annual Meeting. Subsequent to the stockholder nomination submission deadline, the Board expanded its size to six directors. Because we are nominating a majority of the present size of the Board, we cannot permit stockholders to vote for any of the Company's nominees on our **GOLD** Proxy Card. If the Board size remains at six directors, at a minimum, the two Company directors receiving the highest votes, will be elected. We reserve the right to make additional nominations to complete the slate. The names, backgrounds and qualifications and other information for the Company's nominees can be found in the Company's proxy statement for the Annual Meeting (the Company Statement). There is no assurance that any of the Company's nominees will serve as directors if any or all of our Nominees are elected.

Further, in advance of the Annual Meeting, we submitted three stockholder proposals to the Company relating to improved corporate governance that we intend to submit for consideration by the Company's stockholders at the Annual Meeting; the Company has included two of these proposals as Proposal 4 and Proposal 5. We believe it is crucial to improve the Company's corporate governance and responsiveness to stockholder concerns.

The Company has set the record date for determining stockholders entitled to notice of and to vote at the Annual Meeting as April 28, 2014 (the Record Date). The mailing address of the principal executive offices of the Company is 11150 Santa Monica Blvd., Suite 600, Los Angeles, California 90025. Stockholders of record at the close of business on the Record Date will be entitled to vote at the Annual Meeting. According to the Company Statement, as filed with the Securities and Exchange Commission (the SEC) on [], 2014, as of the Record Date, the Company had [] shares of common stock, par value \$0.001 per share (the Common Stock), outstanding and expected to be entitled to vote at the Annual Meeting. Only holders of record of shares of Common Stock (Shares) as of the close of business on the Record Date will be entitled to vote on the Proposals. If you are a stockholder of record as of the close of business on the Record Date, you will retain your right to vote even if you sell your Shares after the Record Date.

As of the date hereof, the Osmium Parties, together with the other Participants in this Proxy Solicitation, beneficially owned 3,622,324 Shares, which represents approximately []% of the outstanding Common Stock (based upon the [] Shares outstanding as of the Record Date, as reported in the Company Statement). We intend to vote such Shares **FOR** the election of the Stockholder Nominees, **FOR** the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the year ending December 31, 2014, **AGAINST** the stockholder proposal regarding poison pills, **FOR** the amendment to the Company's Amended and Restated Bylaws (the Bylaws) to permit stockholders to call special meetings of stockholders, and **FOR** the amendment to the Company's Bylaws to allow beneficial stockholders to submit proposals and nominations for directors.

Mr. Lewis, Osmium Partners and the Funds – the Osmium Parties – have formed a group, within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934 (the Exchange Act). Collectively, Osmium Parties (and each member thereof) may be deemed to have beneficial ownership of a combined 3,375,562 Shares, constituting approximately []% of the Company's outstanding Shares. None of the Participants share beneficial ownership of any Shares beneficially owned by any of the Stockholder Nominees (other than Mr. Lewis), and therefore each Stockholder Nominee disclaims beneficial ownership of any Shares beneficially owned by any Stockholder Nominee and each of the Osmium Parties disclaims beneficial ownership of any Shares of the Stockholder Nominees, other than Mr. Lewis. Despite beneficial ownership of shares of Common Stock and being a limited partner in one or more of Funds I, II and Fund IV, each of the Stockholder Nominees (excluding Mr. Lewis) disclaims any membership in any group within the meaning of Section 13(d)(3) of the Exchange Act with any of the Participants.

The Participants believe that the Stockholder Nominees, if elected, will provide the Company with four highly qualified individuals with the variety and depth of operational, investing, Board and SaaS industry experience and expertise necessary to revitalize the Board and the Company and greatly benefit stockholders going forward. Therefore, the Participants are soliciting your Proxy on the enclosed **GOLD** Proxy Card for the Annual Meeting and ask that you deliver your completed, signed and dated **GOLD** Proxy Card as promptly as possible by mail in the enclosed postage-paid envelope.

IMPORTANT

THIS SOLICITATION IS BEING MADE BY THE PARTICIPANTS AND NOT ON BEHALF OF THE BOARD OF DIRECTORS OR MANAGEMENT OF THE COMPANY. THE PARTICIPANTS ARE NOT AWARE OF ANY OTHER MATTERS TO BE BROUGHT BEFORE THE ANNUAL MEETING OTHER THAN AS DESCRIBED HEREIN. SHOULD OTHER MATTERS, WHICH THE PARTICIPANTS ARE NOT AWARE OF A REASONABLE TIME BEFORE THIS SOLICITATION, BE BROUGHT BEFORE THE ANNUAL MEETING THE PERSONS NAMED AS PROXY ON THE ENCLOSED **GOLD** PROXY CARD WILL VOTE ON SUCH MATTERS IN THEIR DISCRETION.

YOUR VOTE IS IMPORTANT, NO MATTER HOW MANY SHARES YOU OWN. THE OSMIUM PARTIES URGE YOU TO SIGN, DATE AND RETURN THE GOLD PROXY CARD IN FAVOR OF THE ELECTION OF THEIR NOMINEES.

If your Shares are registered in your own name, please sign and date the enclosed **GOLD** Proxy Card and return it to Okapi Partners LLC (Okapi Partners), which is assisting us, in the postage-paid enclosed envelope today.

If your Shares are held in a brokerage firm, bank, custodian or other institution (i.e., held in street name), only such firm, custodian or other institution can sign a **GOLD** Proxy Card with respect to your Shares and only upon receipt of specific voting instructions from you. You are considered the beneficial owner of the Shares, and these proxy materials, together with a **GOLD** Proxy Card or voting instruction form, are being forwarded to you by your broker or bank. **Your broker or bank cannot vote your Shares on your behalf without your instructions.** Accordingly, you should complete any GOLD voting instruction form you receive from your brokerage firm, bank, custodian or other institution and/or contact the person responsible for your account and give instructions that the **GOLD** Proxy Card be completed, signed and dated for your Shares. Further, the Participants urge you to confirm in writing your instructions to the person responsible for your account and to provide a copy of such instructions to Osmium Partners, LLC, c/o Okapi Partners, 437 Madison Avenue, 28th Floor, New York, N.Y. 10022., so that we will be aware of all instructions given and can attempt to ensure that such instructions are followed.

Depending upon your broker or custodian, you may be able to vote either by toll-free telephone or by the Internet. Please refer to the enclosed **GOLD** Proxy Card or voting instruction form for instructions on how to vote electronically. You may also vote by signing, dating and returning the enclosed **GOLD** Proxy Card or voting instruction form.

ONLY THE LATEST DATED PROXY CARD WILL COUNT. WE URGE YOU NOT TO SIGN ANY PROXY CARD THAT MAY BE SENT TO YOU BY THE COMPANY (THE WHITE CARD).

Since only your latest dated proxy card will count, we urge you not to return any white proxy card you receive from the Company. Even if you return management's white proxy card marked withhold as a protest against the Company's director nominees, it will revoke any proxy card you may have previously sent to us.

If you have already sent in a white proxy card furnished by the Company's management or the Board, you may revoke that proxy and vote for the Stockholder Nominees by (i) completing, signing, dating and returning the postage-paid

enclosed **GOLD** Proxy Card, (ii) by delivering a written notice of revocation, or (iii) by voting in person at the Annual Meeting.

You can vote for the Stockholder Nominees only on the **GOLD** Proxy Card, so please make certain that the latest dated Proxy Card you return is the **GOLD** Proxy Card. **THE LATEST DATED PROXY IS THE ONLY ONE THAT COUNTS.**

If you own Shares through a brokerage firm, bank or other nominee in street name, you must instruct your broker how to vote your Shares in order to ensure your Shares are voted. A broker non-vote occurs when you fail to provide your broker with voting instructions at least ten days before the Annual Meeting and the broker does not have the discretionary authority to vote your Shares on a particular proposal because the proposal is not a routine matter under applicable rules. According to the Company Statement and under the rules and interpretations of the New York Stock Exchange (NYSE) which govern such voting by brokers, banks and nominees, once a solicitation is contested, all proposals are no longer routine.

Execution and delivery of a proxy by a record holder of Shares will be presumed to be a proxy with respect to all Shares held by such record holder unless the proxy specifies otherwise.

The proxy materials that the Participants are providing stockholders include this Proxy Statement and the accompanying **GOLD** Proxy Card, which are also available online at [www.okapivote.com/osmium]. Stockholders may request additional copies, free of charge, from Okapi Partners at the contact information below. For information on how to access the Company's filings with the SEC, including the Company's annual report for the fiscal year ended December 31, 2013, please see Certain Information Regarding the Company at page [].

IF YOU HAVE ANY QUESTIONS ABOUT EXECUTING OR DELIVERING YOUR **GOLD PROXY CARD, NEED ADDITIONAL COPIES OF THE OSMIUM PARTIES' PROXY MATERIALS, OR OTHERWISE REQUIRE ASSISTANCE, PLEASE CONTACT:**

437 Madison Avenue, 28th Floor

New York, N.Y. 10022

(212) 297-0720

Stockholders Call Toll-Free at: (855) 305-0856

This Proxy Statement and **GOLD Proxy Card are Available at:**

[www.okapivote.com/osmium]

Please sign, date and return the enclosed **GOLD Proxy Card in the enclosed postage-paid envelope today.**

The date of this Proxy Statement is [], 2014. This Proxy Statement and the enclosed **GOLD** Proxy Card are first being sent or given to stockholders on or about [], 2014 to holders as of [], 2014.

REASONS FOR THIS SOLICITATION

We believe Spark Networks, Inc. (NYSE MKT: LOV) is poorly managed at the Board and executive levels. As the largest stockholder of the Company and an owner for approaching six years, Osmium feels an obligation to correct the sustained failures we see at the Company, including the Board and management's failure to lead the Company effectively, which has significantly undermined investors' confidence. Our contest for four new directors is not an action we take lightly, but we believe continuing down the current path will lead to further underperformance and disappointment.

The online dating industry has demonstrated significant growth and increasing customer acceptance in recent years. Eight years ago, when the current Chairman and CEO assumed his first leadership role at the Company, Spark held an enviable position as the owner of the highly profitable JDate franchise. In subsequent years, the Company failed to leverage this position to create value for stockholders, even as others in the industry achieved substantial growth and success. Since June 2006, when Mr. Liberman became President, and despite very significant investments of stockholder capital, paid subscribers have grown only 2.8% on a compound annual basis and the Company's share price has fallen -21% vs. +172% and +60% for the peer group and Russell 2000, respectively.¹ Earnings results disclosed March 5, 2014 further underscore the need for change, as the Company's forward guidance significantly missed Wall Street expectations.² The Company's stock price declined 19% the following day.³ We believe this decline is largely attributable to management's refusal to disclose key metrics regarding return on direct marketing expense and customer churn in its Christian Networks business.

Further, it appears Company management itself does not understand its own capital allocation decisions. After spending what we believe to be approximately 100% of the Company's current market capitalization on direct marketing for Christian Networks, CEO Greg Liberman admitted the following: "Over the past quarter and a half, we have been working very closely with the marketing attribution partner to identify the true value of each of our marketing investments, both online and off."⁴ This is unacceptable. We find it shocking that a Board with significant tenure would have allowed management to speculate with approximately \$114 million of stockholders' capital without proper oversight and without publicly disclosing metrics to judge results.

We believe owners with significant capital at risk make better decisions. In terms of outright ownership, the current Board owns just 0.2% of Shares outstanding. Despite what we view as a miserable track record on both an absolute and relative basis, the Company's Board voted to extend the current CEO's contract an additional three years in February 2014.⁵ Each of our nominees, either as direct owners of Shares or as participants in our Funds that hold Shares, has individually more outright capital at risk than the Board and management as a whole.

The Board and management have failed to create stockholder value. We believe the time has come for meaningful change. Fortunately, the Company operates in a growing industry with very attractive economics. We believe Spark Networks has great potential to participate in this success, but not unless significant changes are made at the Board level. We believe our plan for change would lead to much greater accountability, improved transparency, a sharper focus on business results, and improved cash flow until the Company is properly positioned to review all appropriate opportunities to create value for owners.

¹ Capital IQ, Inc., Google Finance, accessed April 15, 2014.

² Stifel, Nicolaus & Company, Inc., *4Q Results Good; Outlook Better Than It Looks; Remember the Goal; Buy*, March 6, 2014; William Blair & Company, LLC, *Spark Networks (Market Perform): Solid Quarterly Results; Downgrading Due to Surprising Declining Christian Networks Subscriber Base*, March 6, 2014; *Canaccord Genuity Downgrades Spark Networks (LOV) to Hold*, StreetInsider.com, March 6, 2014.

³ Capital IQ, Inc., accessed April 15, 2015.

- ⁴ Spark Networks, Inc., Transcript of Q4 2013 Earnings Call March 05, 2014, via Capital IQ, Inc., accessed April 2014.
- ⁵ Spark Networks, Inc., Form 8-K, filed February 18, 2014.

About Osmium

Osmium Partners beneficially owns 14.1% of Company Shares, having purchased our first Shares six years ago in 2008.⁶ For years we have acted as strong stockholder advocates, most notably successfully challenging the \$3.10 going private transaction proposed by Great Hill Partners in 2010.⁷ As long as we have owned shares, Osmium has worked constructively with management to further the interests of the Company, including making strategic and investor introductions. Prolonged underperformance, however, has created a critical need for significant change. As a result, and as the largest stockholder and a longstanding owner of good faith, Osmium has nominated four highly qualified, independent nominees Stephen J. Davis, John H. Lewis, Michael J. McConnell and Walter L. Turek for election at the upcoming 2014 Annual Meeting.

We believe that our significant capital at risk in the form of 3.4 million Spark Networks shares directly and strongly aligns our interests with ALL Spark Networks stockholders. Osmium is dedicated to maximizing stockholder value and enhancing corporate governance policies and practices. Osmium believes this is best accomplished by seeking to change the Company Board of Directors.

Eight Years of Underperformance

Over the last eight years, and under the leadership of Gregory Liberman, the current CEO, we believe the Company has radically underperformed for its stockholders, as measured against its peer group and broader market averages.

Corporate performance since Chairman of the Board, Chief Executive Officer and President Greg Liberman was appointed President on June 15, 2006⁸

	June 15, 2006	April 15, 2014	Percentage change
Total enterprise value	\$ 143.5 million	\$ 106.2 million	-25.9%
Market capitalization	\$ 153 million	\$ 120.9 million	-20.9%
Avg. paying subscribers	239,365	292,760	+22.3%
TEV/subscriber	\$ 600	\$ 363	-39.5%
Metrics disclosed	Segment-specific direct subscriber acquisition cost	No longer disclosed	
	Segment-specific monthly subscriber churn		

⁶ Osmium Partners' holdings include the holdings of each of the Funds and Mr. Lewis, managing member of Osmium Partners.

⁷ Osmium Partners, Schedule 13D, filed with the SEC on March 9, 2010; Osmium Partners, Schedule 13D/A, filed with the SEC on August 2, 2010.

⁸ Spark Networks, Inc., Current Report on Form 8-K, filed with the SEC on June 19, 2006.

Indexed price performance

Russell 2000	\$ 100	\$ 159.6	+59.6%
NASDAQ Composite	\$ 100	\$ 188.1	+88.1%
First Trust Internet Index ⁹	\$ 100	\$ 272.0	+172.0%
Spark Networks	\$ 100	\$ 79.1	-20.9%

Source: Capital IQ, Inc., Google Finance, accessed April 15, 2014.

We believe the table above illustrates the magnitude to which stockholders have suffered over the last eight years under this management, and its failed strategies. Since the current CEO, Mr. Liberman, was appointed President on June 15, 2006, Spark's market capitalization has declined by 20.9%, its enterprise value per paid subscriber has dropped by 25.9% and the Company has registered an uninspiring 2.8% compounded annualized growth rate in paid subscribers. These results stand in stark contrast to the industry. For example, Match.com's subscriber base increased from 1.3 million subscribers in 2006 to 3.4 million in 2013, a 12.8% compounded annual growth rate off of a much higher base.¹⁰

Despite such significant and prolonged underperformance, the Board continues to support the existing management team, most notably awarding Mr. Liberman Chairmanship of the Board in December 2013 and, on February 11, 2014, extending his contract and improving its terms only three weeks before the disappointing financial results released March 5, 2014.^{11,12} While we can only conclude the Board was impressed with the CEO's results, the Company's stockholders and sell-side analysts appear not to be impressed. Since 2013, those stockholders who purchased the 9.76 million shares from Great Hill Partners and the Company at an average cost of \$6.15 per share have lost 18.7% of their investment, while sell-side analysts were forced to cut their price target by 33% (from a weighted average of \$10 to \$6.67) the day after the aforementioned disclosure.^{13,14}

After having asked the Company for years to disclose metrics for investors to understand the Christian Networks direct marketing investment, we now believe we understand why Company parties have been reluctant to do so. On the March 5, 2014 investor conference call, Mr. Liberman stated, "over the past quarter and a half, we have been working very closely with the marketing attribution partner to identify the true value of each of our marketing investments, both online and off. We are left to conclude that after spending in excess of \$100 million of stockholder capital, the Board and Management now see fit to determine why these dollars were spent in the first place."

⁹ Tracked from June 30, 2006.

¹⁰ IAC/InterActiveCorp, Annual Report for the year ended December 2013 on Form 10-K, filed with the SEC on February 26, 2014.

¹¹ Spark Networks, Inc., Current Report on Form 8-K, filed with the SEC on December 17, 2013.

¹² Spark Networks, Inc., Current Report on Form 8-K, filed with the SEC on February 18, 2014.

¹³ *Spark Networks(R) Announces Pricing of Offering of 5,710,000 Shares of Common Stock*, Spark Networks, Inc. press release (Beverly Hills, CA, May 2, 2013); *Spark Networks Announces Pricing Of Secondary Public Offering Of Common Stock*, Spark Networks, Inc. press release (Los Angeles, CA, November 20, 2013).

¹⁴ Stifel, Nicolaus & Company, Inc., *4Q Results Good; Outlook Better Than It Looks; Remember the Goal; Buy*, March 6, 2014; William Blair & Company, LLC, *Spark Networks (Market Perform): Solid Quarterly Results; Downgrading Due to Surprising Declining Christian Networks Subscriber Base*, March 6, 2014; *Canaccord Genuity Downgrades Spark Networks (LOV) to Hold*, StreetInsider.com, March 6, 2014.

Our Plan for Change

We, the stockholders of Spark Networks, deserve change. The choice is clear: support the current Board and Management or support change. If elected, our slate of Stockholder Nominees would focus on the following Action Plan:

1. Review the current strategy and historical and current direct marketing investments of Christian Networks and direct the allocation of capital in the best interests of stockholders.
2. Ensure that management will be held accountable for delivering superior and sustainable corporate performance and tying compensation to both business results and share price performance.
3. Carefully examine all aspects of the Company's user experience and appropriate service offerings with respect to the competition. Examine subscriber lifetime values and ensure a strong return on direct marketing investments in relation to subscriber acquisition costs. Focus on cash flow generation until acceptable and sustainable returns on directing marketing expenditures can be verified.
4. Provide visible metrics to allow all investors to judge the degree of the Company's progress and hold the Board accountable for results.
5. Lead the Company to embrace best practices in corporate governance and remove stockholder unfriendly By-laws.
6. Evaluate all strategic alternatives to maximize stockholder value.

Osmium has spent considerable time understanding Spark Networks and its competitors. The Company operates in the paid online dating industry, which is characterized by at-scale competitors generating significant EBITDA margins with strong organic growth rates. The business model is attractive because subscribers pre-pay for the right to provide content and labor. This leads to a business dynamic where, over time, positive customer experiences drive referrals, win-backs and renewals while strengthening network effects and reducing customer acquisition costs. Consequently, industry leaders generate 30% EBITDA margins while smaller competitors generate 20% EBITDA margins.¹⁵ Given these dynamics, and current management's inability to deliver an acceptable return on capital, we think the best course of action, in the near term, is to shrink the business to a point where the Company can reach tolerable EBITDA margins and focus less on management's desire to consume additional empty calorie revenue.

Action Plan Item 1: Review the current strategy and historical and current direct marketing investments of Christian Networks and direct the allocation of capital in the best interests of stockholders.

During the last four years, the Company has embraced a strategy of heavy direct marketing expenditures in Christian Networks to acquire subscribers, investing, to our knowledge, approximately \$113.7 million to generate \$93.4 million in revenue. Despite investing 121% of revenue in direct marketing, the Board and management have repeatedly ignored requests to define, monitor and communicate performance metrics.¹⁶

- ¹⁵ Edwards, Jeremy, *Dating game: With increasing internet penetration, online dating is on the rise*, IBISWorld Inc., September, 2013.
- ¹⁶ Spark Networks, Inc., Form 10-K, filed with the SEC on March 14, 2014 and Spark Networks, Inc., Form 10-K, filed with the SEC on March 8, 2013.

Action Plan Item 2: Ensure that management will be held accountable for delivering superior and sustainable corporate performance and tying compensation to both business results and share price performance.

The current Board has rewarded management's underperformance with a generous compensation plan. Unlike stockholders, who have seen \$1.00 convert to \$0.79 over the last eight years, the Company Management and Board have collected salary, board fees and roughly 1.7 million shares of low-cost options equating to over \$18 million in total compensation.¹⁷ Furthermore, management and the Board, have little skin in the game, owning only 43,600 shares or 0.2% of the Company's common stock outright (excluding options)⁸

To hold management accountable, our proposed Board would review all current compensation policies and ensure alignment with investors in a cost-appropriate manner. We are more than happy to reward management but only when we all benefit together.

Action Plan Item 3: Carefully examine all aspects of the Company's user experience and appropriate service offerings with respect to competition. We will examine subscriber lifetime values and ensure a strong return on direct marketing investments in relation to subscriber acquisition cost. Our Board would focus on cash flow generation until acceptable and sustainable returns on directing marketing expenditures can be verified.

The Company business is predicated upon balancing subscriber acquisition costs against lifetime value. As such, it is critical that the Company provide appropriate subscription offerings in relation to its competitors. In the last year, competitors have launched several important, new revenue streams, and the Company has failed to keep pace.

Management claims Christian Networks presents a market opportunity 30 times the size of Jewish Networks, implying an addressable market of roughly 2.5 million subscribers.¹⁹ Christian Networks' current active paid subscriber base totals 192,349, or just 7.7% of this implied addressable market, and yet, on the March 5, 2014 conference call, management announced a sequential decline in its subscriber base and revenue.²⁰ Current and prospective stockholders are left with little more than a series of question marks, unable to determine if the current strategy is creating value for stockholders. This is critical because the Company corporate history is littered with failed ventures such as JPix, American Singles, and Kizmeet, as well as businesses that have little impact on value creation such as HurryDate.

Action Plan Item 4: Provide visible metrics to allow all investors to judge the degree of the Company's progress and hold the Board accountable for results.

While it is the role of management to run the Company, one of the Board's fundamental responsibilities is to ensure that capital allocation decisions reflect the long-term interests of its stockholders. If elected, our proposed nominees would undertake an immediate review of key investments to ensure that they are earning a return on investment appropriate to the risk of building a business alongside the stable cash flows of Jewish Networks. While analyzing these investments, our Directors would simultaneously work with management to design clear metrics to measure performance and share these appropriately with all stockholders to judge progress. Given the results to date, it is no longer acceptable to invest tens of millions of dollars in Christian Networks while asking stockholders to trust management and the Board.

Action Plan Item 5: Lead the Company to embrace best practices in corporate governance and remove stockholder unfriendly By-laws.

In the past few months, we have become deeply concerned about a number of issues at Spark Networks. In order to address our concerns, we sought Board representation. After considerable thought, we decided the only path

Edgar Filing: SPARK NETWORKS INC - Form PREC14A

- ¹⁷ Spark Networks, Inc., Schedules 14A filed with the SEC on April 2, 2013, April 24, 2012, April 27, 2011, April 28, 2010, April 29, 2009, and November 25, 2008.
- ¹⁸ Spark Networks, Inc., Schedule 14A filed with the SEC on April 2, 2013.
- ¹⁹ Spark Networks, Inc., Investor Presentation Q3 2013: Page 14, via Spark Networks Investor Relations, accessed March 2014.
- ²⁰ Spark Networks, Inc., Transcript of Q4 2013 Earnings Call March 05, 2014, via Capital IQ, Inc., accessed March 2014.

forward to realize stockholder value for all stockholders was to nominate four extremely qualified nominees for election at the Company's 2014 annual meeting.²¹ To ensure proper corporate governance, we also proposed changes to the articles and Bylaws of the Company in our initial filing, two of which are included as Proposals before stockholders at the Company's 2014 Annual Meeting. If adopted, we believe these changes would ensure that management and the Board, including our Directors, if elected, would be more accountable to all stockholders.

Action Plan Item 6: Evaluate all strategic alternatives to maximize stockholder value.

We believe Spark Networks today trades at a fraction of what it is truly worth. Although it may be a challenge to value Spark Networks, sell-side analysts value Match.com's subscribers at \$930 to \$1,014 each.²² In contrast, Spark Networks subscribers are currently being valued at only \$363 per subscriber.

Spark Networks' industry leading Jewish Networks brand has 87% contribution margins, which comes to \$267 in contribution per subscriber per year.²³ In the hands of a strategic buyer, we believe the vast majority of the contribution dollars would fall to EBITDA. Based on recent M&A activity and comparable transactions, we believe Christian Networks subscribers could be valued at \$650-750 per subscriber.²⁴ Therefore, it is our belief that it is not unreasonable to value Spark Networks at six times Jewish Networks contribution dollars, or \$1,560 per subscriber, plus Christian Networks at \$650-750 per subscriber, which would imply a sum-of-the-parts value in the \$10-12 per share range.

If properly led by a highly motivated Board of Directors, we believe Spark Networks can be worth much more than the current market price. We encourage all stockholders to vote for our nominees by voting the GOLD proxy card, to bring the change that we feel strongly that the Company needs.

BACKGROUND OF THE PROXY SOLICITATION

The Osmium Parties first purchased Company Shares in 2008. In 2010, we publicly expressed our opposition to a going private transaction proposed by former Company majority stockholder Great Hill Partners for \$3.10 per Share. Over the years, as the Osmium Parties acquired more Shares, we have been in routine communication with Company management regarding our thoughts for the Company, particularly its strategic opportunities and its relationship with the investment community. We have routinely attended investor and industry conferences featuring the Company. We have made strategic introductions and we have provided repeated advice related to expanding the Company investor base. On November 22, 2013, representatives from Osmium Partners had a telephone conference with Mr. Liberman, the Company's Chairman and CEO, requesting one Board seat. We believed Board representation was appropriate given Great Hill Partners' significant decrease in ownership, which resulted in Osmium becoming the largest stockholder of Spark. Given a significant reinvestment of stockholder capital into new business initiatives, we believed it was important for stockholders to maintain Board representation, as had been the case throughout Great Hill Partners' tenure. During the course of the conversation, in an effort to hasten change within the Board, Osmium Partners amended its request to an immediate appointment. Over the next few weeks, these discussions continued.

On December 5, 2013, Osmium Partners spoke with representatives of the Company expressing the desire to add Mr. Lewis immediately to the Board, and on December 6, 2013, the Osmium Parties filed a Schedule 13D with the SEC disclosing this request. On December 11, 2013, the Company announced the resignation of the two Great Hill Partners appointees from the Board.

²¹ Osmium Partners, Schedule 13D/A, filed with the SEC on February 24, 2014.

²² Bank of America Merrill Lynch, *IAC InterActive Another Google hit to Ask but Match continues to shine*, October 30, 2013; Oppenheimer & Co. Inc., *IAC/InterActive Corp Structural Weakness in Search Should Be a*

Edgar Filing: SPARK NETWORKS INC - Form PREC14A

Catalyst for Reorganization, October 30, 2013.

- ²³ Based on revenues, contribution and average paying subscribers reported for 2013 for Jewish Networks; Spark Networks, Inc., Fourth Quarter Earnings Release, Current Report on Form 8-K, filed with the SEC on March 5, 2014.
- ²⁴ Based on Osmium estimates, Match.com's acquisition of Meetic (2011); Permira's acquisition of Ancestry.com (2012).

From December to February, Osmium Partners and the Company engaged in multiple discussions regarding a potential Board seat. In late December, the Company offered to discuss its strategic ideas. Without knowing that the Company would appoint Mr. Lewis to the Board, and given Osmium Partners' principal business of investing, we declined to execute a confidentiality agreement that would subject us to a contractual standstill provision or saddle us indefinitely with material non-public information. During this period, Mr. Lewis introduced Mr. Liberman to certain strategic contacts of Osmium Partners, for which Mr. Liberman expressed appreciation in an email communication dated January 30, 2014. Despite believing that the Company and its representatives were unnecessarily delaying the Board appointment process, Osmium Partners remained patient with the Company and its process. However, the Board appointment terms and proposed settlement agreement delivered by the Company to Osmium Partners on February 14, 2014 contained provisions that were not consistent with the parties' earlier discussions and were not market for such Board appointment arrangements. Additionally, Company Parties further expressed an interest in implementing a classified Board, a change Osmium did not support.

On February 21, 2014, prior to the Company's February 23, 2014 deadline for such nominations, the Osmium Parties, through stockholder of record Fund I, pursuant to Section 2.9 of the Bylaws, delivered a stockholder nomination letter containing advance notice of four stockholder nominations for the then-current full size of the Board and proposals to be brought before the Annual Meeting. This Nomination Letter submitted nominations for the four Stockholder Nominees, as well as three stockholder proposals (Proposals 3 and 4 of this Proxy Statement, and a third proposal relating to the ability of stockholders to act by written consent, which the Company has declined to include on the agenda of the Annual Meeting based on its view that it first requires Board approval). This letter, in addition to the nomination of the Stockholder Nominees and notice of the stockholder proposals, expressed dissatisfaction with the Company's delays in updating the Board following the departure of Great Hill Partners, and its two directors from the Company and the Board. Further, the letter criticized the Company's corporate governance regime for its impediments to stockholder democracy and demanded Board accountability to stockholders.

On March 2, 2014, John Lewis personally met with a member of the Company Board to discuss a settlement agreement. These parties reached an agreement in principal based on the immediate appointment of Mr. Lewis and another individual to the Board and a market settlement agreement. During the week of March 3, 2014, the Osmium Parties discussed the Stockholder Nominees and stockholder proposals with representatives of the Company, and representatives of the Osmium Parties prepared a settlement agreement for discussion. The Company invited Mr. Lewis to meet with Messrs. David Hughes and Vince Thompson regarding their appointment to the Board. On March 5, 2014, representatives from the Company responded with significant edits to the proposed settlement agreement. These changes were inconsistent with the agreement in principal reached on March 2, 2014 and included not making any changes consistent with the Osmium Parties' corporate governance stockholder proposals, not containing market recommendation/voting requirements, and requiring the Osmium Parties' nominee to tender his resignation in advance. On March 7, 2014, representatives from the Osmium Parties informed Company representatives that it was terminating settlement discussions.

On March 10, 2014, after the advance notice deadline for submission of stockholder proposals and nominations at the Annual Meeting, the Board announced that it had expanded the size of the Board from four to six members and appointed Messrs. Hughes and Thompson to the Board.

On March 10, 2014, the Osmium Parties issued a press release regarding the Company detailing its concerns and action plan for the Company, and amended its Schedule 13D filing.

On April [], 2014, the Osmium Parties filed a preliminary Proxy Statement, and amended its Schedule 13D filing.

PROPOSAL 1

ELECTION OF DIRECTORS

We are seeking your support at the Annual Meeting to elect our four independent Stockholder Nominees, Stephen J. Davis, John H. Lewis, Michael J. McConnell and Walter L. Turek.

According to the Company Statement, the Board currently consists of six authorized directors whose terms will expire at the Annual Meeting, and the Company has nominated these six directors for election at the Annual Meeting. Because the Board size increased to six directors subsequent to the deadline for the submission of director nominations by stockholders, we are seeking your support to elect our four Stockholder Nominees in opposition to the Company's nominees at the Annual Meeting. If elected, our four Stockholder Nominees would replace four of the Company's directors and would constitute a majority of the current Board.

By submitting the **GOLD** proxy card, you will not be able to vote for two director positions for which only the Company is soliciting proxies. However, because of the current six director Board size and the plurality voting standard set forth in the Company's Amended and Restated Bylaws, the six individuals receiving the highest number of FOR votes will be elected at the Annual Meeting. There is no assurance that any incumbent Company director will serve as a director if one or more of our Stockholder Nominees are elected to the Board. You should refer to the Company Statement for the names, background, qualifications and other information concerning the Company's nominees. The nominations of our Stockholder Nominees were made in a timely manner and in compliance with the Company's governing instruments.

Stephen J. Davis, 49

Mr. Davis is a Partner at Banneker Partners, a San Francisco-based private equity firm that focuses on investments in public and private software, internet and business services companies and has been an active investor in technology companies since 2000. Banneker Partners focuses on making investments in software, internet/digital media, SaaS and business services companies.

Prior to joining Banneker Partners, in 2000, Mr. Davis co-founded Vista Equity Partners, a private equity firm that grew to over \$2 billion in capital during his tenure. Mr. Davis served as Principal at Vista. Before joining Vista Equity Partners, he was a Vice President in the Leveraged Finance Group at Credit Suisse First Boston, where he was active in the structure, origination and syndication of bank debt, high yield securities and mezzanine debt capital principally for portfolio companies or acquisition targets of leading private equity firms. Prior to Credit Suisse First Boston, Mr. Davis practiced mergers and acquisitions and securities law in New York with Debevoise & Plimpton and Kirkland & Ellis.

Mr. Davis has served on the Board of Genesys Telecommunications Laboratories, Inc., a leading provider of customer experience and contact center solutions, since its acquisition from Alcatel Lucent in February 2012 by Permira Advisors, Technology Crossover Ventures, and Banneker Partners. Since 2014, he has served on the Board of StatusPath, an online SaaS company providing workflow automation to improve transparency and coordination between teams in the pursuit of business goals and performance objectives. Additionally, Mr. Davis has served on the Board of Advisors of Rocket Lawyer, the leading online company helping small businesses and consumers with their legal needs, since 2007. Mr. Davis has been a Board Observer to Ancestry.com, the leading provider of online genealogy and family history since December 2012, when it was acquired by Permira Advisors, Spectrum Ventures and Banneker Partners. Previously, he has served on the Boards of Applied Systems, BigMachines, Inc., Craig/is Ltd., Petroleum Place, SER, and Ventyx, Inc.

Edgar Filing: SPARK NETWORKS INC - Form PREC14A

In addition, Mr. Davis serves on the Board of Trustees of GLIDE, a non-profit organization dedicated to breaking the cycle of poverty and marginalization, as well as the Board of Directors at the Center for Investigative Reporting in Berkeley, California, and he works with M3 Foundation, a non-profit organization focused on providing education and life skills to youth in the East Bay. Mr. Davis received a B.A. in Economics from Carleton College and JD and MBA degrees from Columbia University, where he graduated with Beta Gamma Sigma honors.

The Osmium Parties have named Mr. Davis as a Stockholder Nominee because of his distinguished track record and deep experience focused on investing in software/SaaS, Internet and business services companies, all with a goal of driving top line growth organically and through acquisitions and operational improvement. In addition to his service as a board member, board observer and advisory board member, he has led the acquisitions of several software companies, including BigMachines, Applied Systems, Petroleum Place and Ventyx.

John H. Lewis, 41

Mr. Lewis a Founder and Managing Partner of Osmium Partners, a Greenbrae-based value investment firm. Prior to founding Osmium Partners in 2002, from 2001 to 2002, Mr. Lewis was Director of Research at Retzer Capital, a Wisconsin-based hedge fund. From 1999 to 2001, he was an Equity Research Analyst at Heartland Funds, a mutual fund with over \$2 billion under management and a 4-star Morningstar rating. At Heartland, Mr. Lewis covered nine sectors, which translated to 35-55 companies and typically over \$100 million in investments for three funds (Value, Value Plus, Select Value). Mr. Lewis received a BA from the University of Maryland (1996), and an MBA from the University of San Francisco (1999).

Mr. Lewis's extensive experience in capital allocation, finance, realizing value in publicly traded companies and knowledge of internet, consumer-based subscription businesses provide the requisite qualifications, skills, perspective and experience that make him well qualified to serve on the Board.

Michael J. McConnell, 48

In addition to being a private investor, Mr. McConnell served as the Interim Non-Executive Chairman of the Board of Directors of Redflex Holdings, Limited, an Australian Stock Exchange (ASX)-listed developer and manufacturer of digital photo enforcement solutions from February 2013 to February 2014 and has served on the Board since August 2011. Mr. McConnell also served as Redflex's Chairman of the Audit Committee, as well as a member of the Remuneration and Nominating & Governance Committees. From 2009 to 2012, Mr. McConnell served as the Chief Executive Officer of Collectors Universe, Inc., a NASDAQ-listed provider of third-party authentication and grading of high value collectibles. Mr. McConnell served on the Board of Collectors Universe, including on its Compensation and Nominating and Governance committees until December 2013. From 1994 to 2007, Mr. McConnell served as a Managing Director of Shamrock Capital Advisors, an investment manager of both domestic and international alternative asset funds in public equities, real estate and private equity, where he led a \$1.2 billion direct investment fund and was a member of the firm's Executive Committee.

Mr. McConnell has served on numerous public and private company boards in the USA, Australia, New Zealand and Ireland over his career. In March 2014, he joined the Board of Vitacost.com, Inc., a NASDAQ-listed leading online retailer of health and wellness products, including dietary supplements. From August 2011 to November 2012, Mr. McConnell served as Chairman of the Remuneration Committee of the Board, and Audit Committee member, of PaperlinX Limited, as ASX-listed international merchant of paper, communication materials and diversified products and services. From November 2009 to January 2012, Mr. McConnell was a member of the board of directors of MRV Communications, a worldwide supplier of communications equipment and services to carriers, governments and enterprise customers worldwide, where he also served on the Strategy and Compensation Committees. In addition, he has formerly served on the boards of Ansell Limited (October 2001 to November 2005), Nuplex Industries (December 2000 to March 2002), Force Corporation (March 1999 to May 2000), iPass Inc. (February 2007 to October 2008), Neo Technology Ventures (February 1999 to June 2004), Cosmoline Limited (March 1997 to May 1999) and Port-Link International (August 2000 to November 2005). Mr. McConnell received his BA in economics from Harvard University in 1988 and his MBA degree (Shermet Scholar) from the Darden School of the University of Virginia in 1994. Mr. McConnell is a member of the Board of Governors of the microfinance organization Opportunity International.

Because Mr. McConnell brings considerable experience as an operating executive, investment professional, public company board member and committee chairman, leader of C-suite executive searches, and speaker on corporate governance, the Osmium Parties believe Mr. McConnell has the requisite qualifications, skills, perspective and experience that make him well qualified to serve on the Board.

Walter L. Turek, 61

Mr. Turek has served as the Executive Chairman of Ascentis Corporation, a provider of human resources software, online payroll services, and SaaS Human Capital Management solutions since 2011. From 2005 until its sale to Vista Equity Partners in 2013, Mr. Turek served on the Board of Directors, including as Chairman of the Nominations and Governance Committee and a member of the Audit and Compensation Committees, of Greenway Medical Technologies (formerly NYSE: GWAY), a provider of information solutions to improve the financial performance of healthcare providers. During his tenure with Greenway Medical, revenues grew from approximately \$10 million to \$140 million. From 2009 to its sale in February 2012 to Juniper Networks, he served as Co-Founder and Director of Mykonos Software, a provider of security solutions for websites and web applications against hackers, fraud and theft. Since 1999, Mr. Turek has been a member of the Board of Directors of BlueTie.com, a leading provider of email hosting services and cloud based collaboration solutions.

Until June 2009, Mr. Turek served as an officer and Senior Vice President of Sales and Marketing for Paychex, Inc. (NASDAQ: PAYX), where he oversaw a sales force of over 2,000 people as well as the company's Marketing and International efforts. During the course of his twenty-five year tenure with Paychex, a leading provider of payroll and human resource services company revenues grew from \$10 million to \$2 billion, and the company's market cap expanded to \$13 billion. In addition, Mr. Turek also served as Corporate Director of Stromberg, a wholly owned subsidiary and a provider of time and attendance solutions.

The Osmium Parties have named Mr. Turek as a Stockholder Nominee due to his familiarity with all aspects of running an organization, including finance, technology, sales and operations. He has a long and distinguished career as both a high level sales and marketing executive officer of a large, international service provider, and a director and founder of numerous private and public solutions providers and software companies.

The business address of each of the Stockholder Nominees is c/o Osmium Partners, LLC, 300 Drakes Landing Rd #172, Greenbrae, CA 94904.

We believe that each of the Stockholder Nominees qualifies as an independent director under Section 803(A)(2) of the NYSE MKT Company Guide, and we have no knowledge of any facts that would prevent a determination that each of the Stockholder Nominees is independent.

The Stockholder Nominees have not received any compensation from the Osmium Parties for serving as nominees, and they will not receive any compensation from us for their services as directors of the Company if elected. Each of the Stockholder Nominees, if elected, will be entitled to receive from the Company compensation paid by the Company to its non-employee directors. The compensation currently paid by the Company to its non-employee directors is described in the Company Statement. Other than as stated in this Proxy Statement, there are no arrangements or understandings between the Osmium Parties and any of the Stockholder Nominees or any other person or persons pursuant to which the nomination of the Stockholder Nominees described herein is to be made. Each of the Stockholder Nominees has consented to being named as a nominee in this Proxy Statement and has confirmed his willingness to serve on the Board if elected.

The Osmium Parties do not expect that any of the Stockholder Nominees will be unable to stand for election, but in the event that a vacancy in the slate of Stockholder Nominees should occur unexpectedly, the shares of Common Stock represented by the **GOLD** proxy card will be voted for a substitute candidate selected by the Osmium Parties, to the extent permissible. The Osmium Parties specifically reserve the right to nominate additional persons, to the extent

permissible, including in the event that the Company increases the size of the Board above its existing size or makes changes to its Board by nominating individuals that are not presently serving as directors. If the Osmium Parties decide to add nominees, we will supplement this Proxy Statement. Additional nominations made pursuant to the preceding sentence are without prejudice to our position that any attempt to increase the size of the current Board or change its composition constitutes an unlawful manipulation of the Company's corporate machinery.

WE URGE YOU TO VOTE YES TO THE ELECTION OF OUR NOMINEES PURSUANT TO PROPOSAL 1.

PROPOSAL 2

COMPANY PROPOSAL TO RATIFY APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

As discussed in further detail in the Company Statement, the Board has recommended the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014. According to the Company Statement, stockholder ratification of the selection of Ernst & Young LLP as the Company's independent public accountants is not required by its Certificate of Incorporation nor its Bylaws. If the stockholders fail to ratify the appointment, the Audit Committee will reconsider whether or not to retain Ernst & Young LLP. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent accounting firm at any time during the year, if it determines that such a change would be in the best interests of the Company and its stockholders.

WE DO NOT OBJECT TO THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2014 AND INTEND TO VOTE OUR SHARES FOR THIS PROPOSAL.

PROPOSAL 3

STOCKHOLDER PROPOSAL REQUESTING THE BOARD ADOPT A RULE TO REDEEM ANY CURRENT OR FUTURE STOCKHOLDER RIGHTS PLAN OR AMENDMENT THERETO UNLESS SUCH PLAN IS SUBMITTED TO A STOCKHOLDER VOTE WITHIN 12 MONTHS

As discussed in further detail in the Company Statement, Company stockholder Mr. Kenneth Steiner, has notified the Company that he intends to present a proposal at the Annual Meeting that the Board adopt a rule to redeem any current or future stockholder rights plan (also known as a "poison pill") or amendment thereto adopted by the Company, unless such a rights plan or amendment is submitted to stockholder vote, as a separate ballot item, within twelve months. In support of this proposal, as included in the Company Statement, Mr. Steiner appears to assert that the Company has a stockholder rights plan that expires in 2017, and that such a stockholder rights plan allows an entrenched management to further its own interests.

The Company opposes Mr. Steiner's proposal. According to the Company Statement, the rights under the Company's stockholder rights plan are only exercisable upon the acquisition by a third party of more than 30% of the Company's outstanding voting shares where the third party has not concurrently launched a tender offer to acquire all of the Company's outstanding common stock.

Generally, the Osmium Parties view stockholder rights plans, and other methods by which a public company board of directors could act out of self-interest to entrench themselves, with a critical eye. The Participants believe that it is important for the Board to periodically consider the Company's corporate governance regime and defensive profiles including the rights plan to determine whether the Company is availing itself of the appropriate protections in light of stockholder needs. However, given the 30% threshold needed to trigger the Company's rights plan, the Participants do not believe that it is presently necessary for the Company to adopt a rule to redeem any current or future stockholder rights plan or amendment thereto as described in Mr. Steiner's proposal.

WE DO NOT OBJECT TO THE COMPANY'S OBJECTION TO THE ADOPTION OF A RULE THAT THE BOARD WILL REDEEM A CURRENT OR FUTURE STOCKHOLDER RIGHTS PLAN OR AMENDMENT THERETO UNLESS THE PLAN IS SUBMITTED TO A STOCKHOLDER VOTE WITHIN TWELVE MONTHS. WE INTEND TO VOTE OUR SHARES AGAINST THIS PROPOSAL.

PROPOSAL 4

STOCKHOLDER PROPOSAL BY THE OSMIUM PARTIES TO AMEND

THE COMPANY S AMENDED AND RESTATED BYLAWS TO PERMIT STOCKHOLDERS TO CALL SPECIAL MEETINGS OF STOCKHOLDERS

Currently, Company stockholders cannot call special meetings of stockholders under the Bylaws. Section 2.3 of the Bylaws only permits the Company s Board of Directors, Chairman, Chief Executive Officer or President to call special meetings of stockholders. This provision strictly limits the ability of Company stockholders to propose changes in the composition of the Board of Directors or act with respect to other Company initiatives or concerns at any time other than at the annual meeting of stockholders. Such a prohibition has the effect of limiting stockholders to only one stockholder forum per year and prohibits the stockholders from calling a meeting on a timely basis with a stockholder-driven agenda. The Participants believe that such a limit is too restrictive on the Company and its stockholders and creates too much separation between the Board and management, on the one hand, and the stockholders whom they are charged to serve. The ability to bring special meetings of stockholders is critical if stockholders are to be fully effective in advocating for their best interests.

Under this Proposal Three, Section 2.3 of the Bylaws would be deleted in its entirety and replaced with the following proposed language:

Section 2.3 Special Meetings.

Special meetings may be called at any time by the (i) Board of Directors, (ii) the Chairman, (iii) the Chief Executive Officer, (iv) the President or (v) stockholders owning not less than fifteen percent of the outstanding stock entitled to vote at such meeting by delivering a written request to the Secretary of the Corporation, which request shall set forth the purpose or purposes for which the special meeting is called. Upon receipt of any such stockholder request, it shall be the duty of the Secretary to fix the date and time of the meeting, to be held not more than 75 days following receipt of the request, and to give notice thereof. If the Secretary shall neglect to refuse to fix the date and time of the meeting, the person or persons calling the meeting may do so.

WE BELIEVE IT IS IMPORTANT TO AMEND THE BYLAWS TO ALLOW BENEFICIAL STOCKHOLDERS TO BE ABLE TO CALL SPECIAL MEETINGS OF STOCKHOLDERS, AND WE INTEND TO VOTE OUR SHARES FOR THIS PROPOSAL.

PROPOSAL 5

STOCKHOLDER PROPOSAL BY THE OSMIUM PARTIES TO AMEND

THE COMPANY S AMENDED AND RESTATED BYLAWS TO ALLOW BENEFICIAL STOCKHOLDERS TO SUBMIT PROPOSALS AND NOMINATIONS FOR DIRECTORS UNDER THE COMPANY S AMENDED AND RESTATED BYLAWS

Currently, Section 2.9 of the Bylaws only permit a stockholder who is a holder of record (i.e., a stockholder whose name appears directly on the books of the Company s transfer agent) to make stockholder proposals or nominate directors at the Company s annual meetings of stockholders. The Participants believe that modern markets, including the NYSE MKT on which the Company s Common Stock is listed, depend on the quick transfer of shares allowed by the use of the Depository Trust Company (DTC) system. The vast majority of shares held by investors in public companies are held through DTC. Investors, however, hold these shares in street name, only as beneficial owners, not record holders.

As a result, we believe that the requirement of Section 2.9 of the Bylaws that stockholder nominations for directors and stockholder proposals must be submitted by a record holder on behalf of beneficial holders at best poses significant barriers for, and at worst disenfranchises, a significant percentage of the Company's investor base.

The provision prevents Company stockholders whose shares were purchased entirely on the NYSE MKT, and other beneficial holder stockholders, from making nominations or other proposals on their own behalf. Concerned stockholders must take considerable extra effort to make nominations or proposals through DTC or transfer some or all of their shares to a registered holding.

A requirement that only a record holder can submit a stockholder nomination or proposal, in our view, is arcane in the modern market and penalizes the majority of the Company's stockholders for acquiring and holding shares in the most common and convenient form of stock ownership. Further, it is clearly in the best interests of stockholders to have the ability to make timely proposals or nominate directors that would be responsive to stockholder concerns.

Therefore, we call for the Company's stockholder nomination and proposal process to apply equally to beneficial stockholders and stockholders of record. It is our proposal that Sections 2.9(A) and 2.9(B) of the Bylaws should be deleted in their entirety and replaced with the following proposed language:

(A) Except for (1) any directors entitled to be elected by the holders of preferred stock, (2) any directors elected in accordance with Section 3.6 hereof by the Board of Directors to fill a vacancy or newly-created directorships or (3) as otherwise required by applicable law or stock market regulation, only persons who are nominated in accordance with the procedures in this Section 2.9 shall be eligible for election as directors. Nomination for election to the Board of Directors at a meeting of stockholders may be made (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the Corporation who complies with the notice procedures set forth in Section 2.9(B). At any annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (1) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (2) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (3) properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the business must constitute a proper matter under Delaware law for stockholder action and the stockholder must have given timely notice thereof in writing to the Secretary in accordance with the procedures set forth in the Section 2.9(B).

(B) To be timely, a stockholder's notice shall be delivered to the secretary at the principal executive offices of the Corporation not later than the close of business on the ninetieth (90th) day nor earlier than the close of business on the one hundred twentieth (120th) day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting differs by more than thirty (30) days from such anniversary date or if the Corporation has not previously held an annual meeting, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the one hundred twentieth (120th) day prior to such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made by the Corporation. In the case of an election of directors at a special meeting of stockholders, provided that the Board of Directors has determined that directors shall be elected at such meeting, a stockholder's notice shall be delivered to the secretary at the principal executive offices of the Corporation not earlier than the one hundred twentieth (120th) day prior to such special meeting and not later than the close of business on the later of (x) the ninetieth (90th) day prior to such special meeting and (y) the tenth (10th) day following the day on which notice of the date of such special meeting was mailed or public disclosure of the date of such special meeting was made, whichever first occurs. In no event shall the adjournment or postponement of an annual meeting (or the public announcement thereof) commence a new time period (or extend any time period) for the giving of a stockholder's notice.

Such stockholder's notice shall set forth (I) as to each person whom the stockholder proposes to nominate for election or reelection as a director (a) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (or any successor thereto) and Rule 14a-11 thereunder (or any successor

thereto) (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated (in the event the stockholder is a holder of record, as such name and address appear on the books of the Corporation); (c) a representation that the stockholder is either a holder of record or beneficial owner of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by