

MARCHEX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(unaudited)

	Predecessor Period	Successor Period		Combined 2003 Periods		Successor Periods	
	Period from January 1 to February 28, 2003	Period from January 17 (inception) to June 30, 2003	Combined Periods Ended March 31, 2003	Combined Period January 1 to June 30, 2003	Six Months ended June 30, 2004	Quarter ended June 30, 2003	Quarter ended June 30, 2004
Revenue	\$ 3,071,055	7,072,219	10,143,274	10,143,274	16,467,089	5,356,286	8,865,178
Expenses:							
Service costs	1,732,813	3,838,815	5,571,628	5,571,628	10,523,390	2,955,535	5,743,815
Sales and marketing	365,043	868,797	1,233,840	1,233,840	2,040,682	654,182	1,030,710
Product development	144,479	459,874	604,353	604,353	1,033,841	354,927	528,306
General and administrative	234,667	1,156,775	1,391,442	1,391,442	1,541,427	729,856	846,680
Acquisition-related retention consideration	-	-	-	-	255,660	-	122,724
Facility relocation	-	-	-	-	230,459	-	-
Stock-based compensation	38,981	1,261,069	1,300,050	1,300,050	595,998	550,078	235,234
Amortization of intangible assets	-	1,159,675	1,159,675	1,159,675	2,069,512	869,588	1,034,643
Total operating expenses	2,515,983	8,745,005	11,260,988	11,260,988	18,290,969	6,114,166	9,542,112
Income (loss) from operations	555,072	(1,672,786)	(1,117,714)	(1,117,714)	(1,823,880)	(757,880)	(676,934)
Other income (expense):							
Interest income	1,529	16,571	18,100	18,100	81,346	13,479	70,329
Interest expense	-	-	-	-	(1,813)	-	(1,488)
Adjustment to fair value of redemption obligation	-	-	-	-	55,250	-	-
Other	-	-	-	-	3,643	-	-
Total other income	1,529	16,571	18,100	18,100	138,426	13,479	68,841
Income (loss) before provision for income taxes	556,601	(1,656,215)	(1,099,614)	(1,099,614)	(1,685,454)	(744,401)	(608,093)
Income tax expense (benefit)	224,082	(586,863)	(362,781)	(362,781)	(200,803)	(263,771)	(147,103)
Net income (loss)	332,519	(1,069,352)	(736,833)	(736,833)	(1,484,651)	(480,630)	(460,990)
Accretion to redemption value of redeemable							

convertible preferred stock	-	504,355	504,355	504,355	420,430	385,274	17,751
Net income (loss) applicable to common stockholders	\$ 332,519	(1,573,707)	(1,241,188)	(1,241,188)	(1,905,081)	(865,904)	(478,741)
Basic and diluted net loss per share applicable to common stockholders		\$ (0.12)	\$ (0.09)		\$ (0.10)	\$ (0.07)	\$ (0.02)
Shares used to calculate basic and diluted net loss per share applicable to common stockholders		13,174,451	13,074,041		18,810,413	13,255,000	24,174,284

(A) Presentation of Financial Reporting Periods

From January 17, 2003 (inception) through February 28, 2003, we were involved in business and product development, as well as financing and acquisition initiatives. During this period, we had no revenue. On February 28, 2003, we acquired Enhance Interactive. Accordingly, our activities in the six months ended June 30, 2004 were different from the operating activities of Enhance Interactive same period in 2003. For purposes of our discussion, we have included the results of operations of the Predecessor, Enhance Interactive. The 2003 period presentation combines the results for the period of January 17, 2003 (inception) to June 30, 2003 and the results of Enhance Interactive for the period of January 1, 2003 to February 28, 2003 (Combined 2003 Periods). In the Combined 2003 Periods, we have included the overlapping operating activities of Enhance Interactive and our operating activities for the period of January 17, 2003 (inception) through February 28, 2003.

MARCHEX, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(unaudited)

Assets	December 31, 2003	June 30, 2004
Current assets:		
Cash and cash equivalents	\$ 6,019,119	29,769,037
Accounts receivable, net	1,627,730	2,361,195
Prepaid expenses and other current assets	433,109	490,059
Deferred tax assets	263,193	394,221
Total current assets	8,343,151	33,014,512
Property and equipment, net	994,793	1,191,913
Other assets	409,878	152,037
Goodwill	17,252,999	17,279,035
Identifiable intangible assets, net	6,701,791	4,632,279

Total assets	\$	33,702,612	56,269,776
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable	\$	2,842,229	2,871,864
Accrued expenses and other current liabilities		1,284,492	1,025,724
Deferred revenue		848,958	1,055,586
Earn-out liability payable		3,525,995	258,328
Total current liabilities		8,501,674	5,211,502
Deferred tax liabilities		1,829,687	1,068,559
Other non-current liabilities		96,517	120,945
Total liabilities		10,427,878	6,401,006
Series A redeemable convertible preferred stock		21,440,402	-
Stockholders' equity:			
Class A common stock		122,500	122,500
Class B common stock		15,675	128,271
Class B restricted common stock		-	1,146
Additional paid-in capital		6,716,734	55,946,513
Deferred stock-based compensation		(1,532,340)	(936,342)
Accumulated deficit		(3,488,237)	(5,393,318)
Total stockholders' equity		1,834,332	49,868,770
Total liabilities and stockholders' equity	\$	33,702,612	56,269,776

MARCHEX, INC. AND SUBSIDIARIES

Reconciliation of Adjusted Operating Income Before Amortization and Operating Income Before Amortization (OIBA) to GAAP Net Income (Loss)

(unaudited)

	Predecessor Period	Successor Period		Successor Periods			
		Period from January 17 (inception) to June 30, 2003	Combined Periods Ended March 31, 2003	Combined Periods January 1 to June 30, 2003	Six months ended June 30, 2004	Quarter ended June 30, 2003	Quarter ended June 30, 2004
Adjusted operating income before amortization (Adjusted OIBA)	\$ 594,053	747,958	1,342,011	1,342,011	1,327,749	661,786	715,667

Acquisition-related retention consideration	-	-	-	-	(255,660)	-	(122,724)
Facility relocation	-	-	-	-	(230,459)	-	-
Operating income before amortization (OIBA)	594,053	747,958	1,342,011	841,630	661,786	592,943	
Stock-based compensation	(38,981)	(1,261,069)	(1,300,050)	(1,300,050)	(595,998)	(550,078)	(235,234)
Amortization of intangible assets	-	(1,159,675)	(1,159,675)	(1,159,675)	(2,069,512)	(869,588)	(1,034,643)
Income (loss) from operations	555,072	(1,672,786)	(1,117,714)	(1,117,714)	(1,823,880)	(757,880)	(676,934)
Other income (expense):							
Interest income	1,529	16,571	18,100	18,100	81,346	13,479	70,329
Interest expense	-	-	-	-	(1,813)	-	(1,488)
Adjustment to fair value of redemption obligation	-	-	-	-	55,250	-	-
Other	-	-	-	-	3,643	-	-
Total other income	1,529	16,571	18,100	18,100	138,426	13,479	68,841
Income (loss) before provision for income taxes	556,601	(1,656,215)	(1,099,614)	(1,099,614)	(1,685,454)	(744,401)	(608,093)
Income tax expense (benefit)	224,082	(586,863)	(362,781)	(362,781)	(200,803)	(263,771)	(147,103)
Net income (loss)	332,519	(1,069,352)	(736,833)	(736,833)	(1,484,651)	(480,630)	(460,990)
Accretion to redemption value of redeemable convertible preferred stock	-	504,355	504,355	504,355	420,430	385,274	17,751
Net income (loss) applicable to common stockholders	\$ 332,519	(1,573,707)	(1,241,188)	(1,241,188)	(1,905,081)	(865,904)	(478,741)

(A) Adjusted operating income before amortization and operating income before amortization (OIBA)

We report operating income before amortization (OIBA) that is a supplemental measure to GAAP. OIBA represents loss from operations before (1) stock-based compensation expense and (2) amortization of intangible assets. It is one of the primary metrics by which we evaluate the performance of our business. Additionally, management uses adjusted OIBA which excludes both the acquisition-related retention consideration, as we view this as part of the earn-out incentives related to the Enhance transaction, and a facility relocation expense. Both of these considerations are viewed as non-recurring in nature with the facility relocation expense recognized in the six months ended June 30, 2004 and the earn-out consideration relating to calendar year 2004. We refer to adjusted OIBA to facilitate accurate comparisons to the Company's historical operating results, in making operating decisions, for internal budget planning, and in some cases to form the basis upon which management is evaluated.

Management believes that investors should have access to, and we are obligated to provide, the same set of tools that we use in analyzing our results. These non-GAAP measures should be considered in addition to results prepared in accordance with GAAP, and should not be considered in isolation, as a substitute for or superior to GAAP results. We believe these measures are useful to investors because they represent our consolidated operating results, taking into account depreciation, which we believe is an ongoing cost of doing business, but excluding the effects of certain other non-cash and non-recurring expenses.

OIBA and adjusted OIBA have certain limitations in that they do not take into account the impact to our statement of operations of certain expenses, including non-cash stock-based compensation associated with our employees, acquisition-related accounting and facility relocation amounts. We endeavor to compensate for the limitations of these non-GAAP measures presented by providing the comparable GAAP measure with equal or greater prominence, GAAP financial statements and detailed descriptions of the reconciling items and adjustments, including quantifying such items, to derive the non-GAAP measure.

(B) Presentation of Financial Reporting Periods

From January 17, 2003 (inception) through February 28, 2003, we were involved in business and product development, as well as financing and acquisition initiatives. During this period, we had no revenue. On February 28, 2003, we acquired Enhance Interactive. Accordingly, our activities in the six months ended June 30, 2004 were different from the operating activities of Enhance Interactive same period in 2003. For purposes of our discussion, we have included the results of operations of the Predecessor, Enhance Interactive. The 2003 period presentation combines the results for the period of January 17, 2003 (inception) to June 30, 2003 and the results of Enhance Interactive for the period of January 1, 2003 to February 28, 2003 (Combined 2003 Periods). In the Combined 2003 Periods, we have included the overlapping operating activities of Enhance Interactive and our operating activities for the period of January 17, 2003 (inception) through February 28, 2003.

