

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

	Three Months Ended	
	December 31,	
	2006	2007
Revenue	<u>\$ 32,606,314</u>	<u>\$ 37,008,033</u>
Expenses:		
Service costs (1)	15,377,218	20,079,692
Sales and marketing (1)	5,814,305	5,311,134
Product development (1)	2,624,636	3,454,849
General and administrative (1)	3,168,286	4,986,514
Amortization of intangible assets from acquisitions	5,121,162	4,325,618
Total operating expenses	<u>32,105,607</u>	<u>38,157,807</u>
Gain on sales and disposals of intangible assets, net	<u>85,194</u>	<u>997</u>
Income (loss) from operations	585,901	(1,148,777)
Interest income and other, net	<u>835,992</u>	<u>370,827</u>
Income (loss) before provision for income taxes	1,421,893	(777,950)
Income tax expense (benefit)	<u>1,984,954</u>	<u>(21,676)</u>
Net loss	(563,061)	(756,274)
Convertible preferred stock dividends and discount on preferred stock redemption	<u>(5,535,570)</u>	<u>17,891</u>
Net income (loss) applicable to common stockholders	<u>\$ 4,972,509</u>	<u>\$ (774,165)</u>
Basic net income (loss) applicable to common stockholders	\$ 0.13	\$ (0.02)
Diluted net loss applicable to common stock holders	\$ (0.01) (2)	\$ (0.02)
Shares used to calculate basic net income (loss) per share applicable to common stockholders	38,845,086	37,735,790
Shares used to calculate diluted net loss per share applicable to common stockholders	39,745,623 (2)	37,735,790
(1) Includes stock-based compensation allocated as follows:		
Service costs	\$ 417,166	\$ (16,737)
Sales and marketing	160,102	(271,161)
Product development	831,983	189,863
General and administrative	1,224,911	2,191,320
Total	<u>\$ 2,634,162</u>	<u>\$ 2,093,285</u>

(2) Calculation of the 2006 diluted net loss per share applicable to common stockholders excludes the effect of the discount on preferred stock redemption of \$5.8 million, net of dividends on the redeemed preferred shares of \$197,000. The shares used to calculate the 2006 diluted net loss per share applicable to common stockholders includes the weighted average common share equivalents for the redeemed preferred shares.

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

	Year Ended December 31,	
	2006	2007
Revenue	\$ 127,759,475	\$ 139,390,659
Expenses:		
Service costs (1)	60,433,611	70,901,141
Sales and marketing (1)	23,050,654	24,962,682
Product development (1)	10,094,967	12,018,010
General and administrative (1)	13,533,215	17,777,790
Amortization of intangible assets from acquisitions	20,465,128	16,930,348
Facility relocation	-	121,124
Total operating expenses	127,577,575	142,711,095
Gain on sales and disposals of intangible assets, net	369,960	283,076
Loss from operations	551,860	(3,037,360)
Interest income and other, net	3,143,363	2,492,493
Income (loss) before provision for income taxes	3,695,223	(544,867)
Income tax expense	4,290,201	960,401
Loss before cumulative effect of a change in accounting principle	(594,978)	(1,505,268)
Cumulative effect of a change in accounting principle, net of tax (2)	151,341	-
Net loss	(443,637)	(1,505,268)
Convertible preferred stock dividends, conversion payment and discount on preferred stock redemption, net	(3,197,341)	(95,148)
Net income (loss) applicable to common stockholders	\$ 2,753,704	\$ (1,410,120)
Basic net income (loss) per share applicable to common stockholders	\$ 0.07	\$ (0.04)
Diluted net loss per share applicable to common stockholders	\$ (0.04) (3)	\$ (0.04)
Basic net income (loss) applicable to common stockholders	38,261,884	38,937,697
Diluted net loss applicable to common stock holders	39,500,123 (3)	38,937,697
(1) Includes stock-based compensation allocated as follows:		
Service costs	\$ 1,177,773	\$ 285,329
Sales and marketing	2,996,945	565,445
Product development	3,278,513	1,732,880
General and administrative	5,338,287	7,725,515
Total	\$ 12,791,518	\$ 10,309,169

(2) As a result of the adoption of SFAS 123R, Marchex recorded an amount from the cumulative impact of the accounting change.

(3) Calculation of the 2006 diluted net loss per share applicable to common stockholders excludes the effect of the discount on preferred stock redemption of \$5.8 million, net of dividends on the redeemed preferred shares of \$197,000. The shares used to calculate the 2006 diluted net loss per share applicable to common stockholders includes the weighted average common share equivalents for the redeemed preferred shares.

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

Assets	<u>December 31, 2006</u>	<u>December 31, 2007</u>
Current assets:		
Cash and cash equivalents	\$ 46,105,827	\$ 36,456,307
Trade accounts receivable, net	22,035,343	18,307,386
Prepaid expenses and other current assets	2,221,550	2,118,390
Refundable taxes	1,837,166	1,693,695
Deferred tax assets	<u>670,624</u>	<u>867,465</u>
Total current assets	72,870,510	59,443,243
Property and equipment, net	7,280,075	7,357,903
Deferred tax assets	2,444,782	7,447,315
Intangibles and other assets, net	13,318,801	17,381,827
Goodwill	200,738,098	204,766,826
Intangible assets from acquisitions, net	<u>36,735,570</u>	<u>23,797,231</u>
Total assets	<u><u>\$333,387,836</u></u>	<u><u>\$ 320,194,345</u></u>
 Liabilities and Stockholders' Equity 		
Current liabilities:		
Accounts payable	\$ 10,739,231	\$ 11,625,779
Accrued expenses and other current liabilities	2,913,152	3,668,342
Deferred revenue	<u>2,430,644</u>	<u>2,906,379</u>
Total current liabilities	16,083,027	18,200,500
Other non-current liabilities	<u>91,907</u>	<u>105,368</u>
Total liabilities	16,174,934	18,305,868
Stockholders' equity:		
Convertible preferred stock	2,342,884	1,446,649
Class A common stock	119,217	113,717
Class B common stock	276,361	298,164
Treasury stock	-	(22,116,275)
Additional paid-in capital	320,607,113	329,858,427
Accumulated deficit	<u>(6,132,673)</u>	<u>(7,712,205)</u>
Total stockholders' equity	<u>317,212,902</u>	<u>301,888,477</u>
Total liabilities and stockholders' equity	<u><u>\$333,387,836</u></u>	<u><u>\$ 320,194,345</u></u>

MARCHEX, INC. AND SUBSIDIARIES
Reconciliation of Revenue to Pro Forma Revenue
(unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2006	2007	2006	2007
Revenue, as reported	\$ 32,606,314	\$ 37,008,033	\$ 127,759,475	\$ 139,390,659
AreaConnect pro forma revenue	-	-	649,675	-
Open List pro forma revenue	-	-	156,511	-
VoiceStar pro forma revenue	310,654	-	772,971	1,675,712
Pro forma eliminations	-	-	(22,259)	-
Pro forma Revenue	<u>\$ 32,916,968</u>	<u>\$ 37,008,033</u>	<u>\$ 129,316,373</u>	<u>\$ 141,066,371</u>

MARCHEX, INC. AND SUBSIDIARIES
Reconciliation of GAAP Net Income (Loss) to Operating Income Before Amortization (OIBA) and
Adjusted Operating Income Before Amortization (Adjusted OIBA)
(unaudited)

	Three Months Ended	
	December 31,	
	2006	2007
Net income (loss) applicable to common stockholders	\$ 4,972,509	\$ (774,165)
Convertible preferred stock dividends and discount on preferred stock redemption	<u>(5,535,570)</u>	<u>17,891</u>
Net loss	(563,061)	(756,274)
Income tax expense (benefit)	<u>1,984,954</u>	<u>(21,676)</u>
Income (loss) before provision for income taxes	1,421,893	(777,950)
Interest income and other, net	<u>(835,992)</u>	<u>(370,827)</u>
Income (loss) from operations	585,901	(1,148,777)
Stock-based compensation	2,634,162	2,093,285
Amortization of intangible assets from acquisitions	<u>5,121,162</u>	<u>4,325,618</u>
Operating income before amortization (OIBA)	8,341,225	5,270,126
Gain on sales and disposals of intangible assets, net	<u>(85,194)</u>	<u>(997)</u>
Adjusted operating income before amortization (Adjusted OIBA)	<u>\$ 8,256,031</u>	<u>\$ 5,269,129</u>

MARCHEX, INC. AND SUBSIDIARIES
Reconciliation of GAAP Net Income (Loss) to Operating Income Before Amortization (OIBA) and
and Adjusted Operating Income Before Amortization (Adjusted OIBA)
(unaudited)

	Year Ended	
	December 31,	
	<u>2006</u>	<u>2007</u>
Net income (loss) applicable to common stockholders	\$ 2,753,704	\$ (1,410,120)
Convertible preferred stock dividends, conversion payment and discount on preferred stock redemption, net	<u>(3,197,341)</u>	<u>(95,148)</u>
Net loss	(443,637)	(1,505,268)
Cumulative effect of a change in accounting principle, net of tax (1)	<u>151,341</u>	<u>-</u>
Loss before cumulative effect of a change in accounting principle	(594,978)	(1,505,268)
Income tax expense	<u>4,290,201</u>	<u>960,401</u>
Income (loss) before provision for income taxes	3,695,223	(544,867)
Interest income and other, net	<u>(3,143,363)</u>	<u>(2,492,493)</u>
Income (loss) from operations	551,860	(3,037,360)
Stock-based compensation	12,791,518	10,309,169
Amortization of intangible assets from acquisitions	<u>20,465,128</u>	<u>16,930,348</u>
Operating income before amortization (OIBA)	33,808,506	24,202,157
Facility relocation	-	121,124
Gain on sales and disposals of intangible assets, net	<u>(369,960)</u>	<u>(283,076)</u>
Adjusted operating income before amortization (Adjusted OIBA)	<u>\$ 33,438,546</u>	<u>\$ 24,040,205</u>

(1) As a result of the adoption of SFAS 123R, Marchex recorded an amount from the cumulative impact of the accounting change.

MARCHEX, INC. AND SUBSIDIARIES
Reconciliation from Net Cash provided by Operating Activities to Adjusted EBITDA
(unaudited)

	Three Months Ended	
	December 31,	
	2006	2007
Net cash provided by operating activities	\$ 3,974,053	\$ 9,496,441
Changes in asset and liabilities, net of effects of acquisitions	4,444,289	(1,298,969)
Provision for income taxes	1,984,954	(21,676)
Other item - facility relocation	(10,932)	4,533
Interest income and other, net	(835,592)	(370,721)
Income and excess tax benefits related to stock options	437,667	87,330
Adjusted EBITDA	<u>\$ 9,994,439</u>	<u>\$ 7,896,938</u>

	Year Ended	
	December 31,	
	2006	2007
Net cash provided by operating activities	\$ 30,807,871	\$ 37,068,910
Changes in asset and liabilities, net of effects of acquisitions	5,069,636	(4,816,666)
Provision for income taxes	4,290,201	960,401
Other item - facility relocation	32,499	12,614
Interest income and other, net	(3,152,727)	(2,495,630)
Income and excess tax benefits related to stock options	2,463,018	2,550,308
Adjusted EBITDA	<u>\$ 39,510,498</u>	<u>\$ 33,279,937</u>

MARCHEX, INC. AND SUBSIDIARIES
Reconciliation of GAAP EPS to Adjusted Non-GAAP EPS
(unaudited)

	Three Months Ended	
	December 31,	
	<u>2006</u>	<u>2007</u>
Adjusted Non-GAAP EPS	<u>\$ 0.13</u>	<u>\$ 0.08</u>
Net loss per share applicable to common stockholders - diluted (GAAP EPS)	\$ (0.01)	\$ (0.02)
Shares used to calculate diluted net loss per share applicable to common stockholders	39,745,623	37,735,790
Net income (loss) applicable to common stockholders	\$ 4,972,509	\$ (774,165)
Discount on preferred stock redemption	(5,761,134)	-
Stock-based compensation	2,634,162	2,093,285
Amortization of intangible assets from acquisitions	5,121,162	4,325,618
Gain on sales and disposals of intangible assets, net	(85,194)	(997)
Interest income and other, net	(835,992)	(370,827)
Estimated impact of income taxes	<u>(975,429)</u>	<u>(1,880,951)</u>
Adjusted Non-GAAP net income applicable to common stockholders	<u>\$ 5,070,084</u>	<u>\$ 3,391,963</u>
Adjusted Non-GAAP EPS	<u>\$ 0.13</u>	<u>\$ 0.08</u>
Shares used to calculate diluted net loss per share applicable to common stockholders	39,745,623	37,735,790
Weighted average common share equivalents for redeemed preferred shares	(900,537)	-
Weighted average stock options and warrants and common shares subject to repurchase or cancellation (if applicable)	<u>1,591,877</u>	<u>3,747,029</u>
Shares used to calculate Adjusted Non-GAAP EPS	<u>40,436,963</u>	<u>41,482,819</u>

For Adjusted Non-GAAP EPS, the impact of restricted stock (common shares subject to repurchase or cancellation) is based on the weighted average of restricted stock outstanding as compared with diluted shares for GAAP purposes, which included restricted stock on a treasury stock method basis.

MARCHEX, INC. AND SUBSIDIARIES
Reconciliation of GAAP EPS to Adjusted Non-GAAP EPS
(unaudited)

	Year Ended	
	December 31,	
	2006	2007
Adjusted Non-GAAP EPS	<u>\$ 0.47</u>	<u>\$ 0.36</u>
Net loss per share applicable to common stockholders - diluted (GAAP EPS)	\$ (0.04)	\$ (0.04)
Shares used to calculate diluted net loss per share applicable to common stockholders	39,500,123	38,937,697
Net income (loss) applicable to common stockholders	\$ 2,753,704	\$ (1,410,120)
Discount on preferred stock redemption	(5,761,134)	(163,867)
Stock-based compensation	12,791,518	10,309,169
Facility relocation	-	121,124
Amortization of intangible assets from acquisitions	20,465,128	16,930,348
Gain on sales and disposals of intangible assets, net	(369,960)	(283,076)
Cumulative effect of a change in accounting principle, net of tax (1)	(151,341)	-
Interest income and other, net	(3,143,363)	(2,492,493)
Estimated impact of income taxes	<u>(7,730,395)</u>	<u>(7,734,810)</u>
Adjusted Non-GAAP net income applicable to common stockholders	<u>\$ 18,854,157</u>	<u>\$ 15,276,275</u>
Adjusted Non-GAAP EPS	<u>\$ 0.47</u>	<u>\$ 0.36</u>
Shares used to calculate diluted net loss per share applicable to common stockholders	39,500,123	38,937,697
Weighted average common share equivalents for redeemed preferred shares	(1,238,239)	-
Weighted average stock options and warrants and common shares subject to repurchase or cancellation (if applicable)	<u>2,090,623</u>	<u>3,382,111</u>
Shares used to calculate Adjusted Non-GAAP EPS	<u>40,352,507</u>	<u>42,319,808</u>

For Adjusted Non-GAAP EPS, the impact of restricted stock (common shares subject to repurchase or cancellation) is based on the weighted average of restricted stock outstanding as compared with diluted shares for GAAP purposes, which included restricted stock on a treasury stock method basis.

- (1) As a result of the adoption of SFAS 123R, Marchex recorded an amount from the cumulative impact of the accounting change.