

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

| | <u>Quarter ended December 31, 2003</u> | <u>Quarter ended December 31, 2004</u> |
|--|--|--|
| Revenue | \$ <u>7,460,665</u> | <u>15,121,348</u> |
| Expenses: | | |
| Service costs | 4,486,049 | 9,307,052 |
| Sales and marketing | 868,133 | 1,217,047 |
| Product development | 447,300 | 655,109 |
| General and administrative | 927,966 | 1,497,612 |
| Acquisition-related retention consideration | 283,269 | 124,222 |
| Stock-based compensation | 537,634 | 169,117 |
| Amortization of intangible assets acquired in business combinations | 994,146 | 1,491,527 |
| Total operating expenses | <u>8,544,497</u> | <u>14,461,686</u> |
| Income (loss) from operations | (1,083,832) | 659,662 |
| Other income (expense): | | |
| Interest income | 40,557 | 101,546 |
| Interest expense | - | (1,926) |
| Total other income | <u>40,557</u> | <u>99,620</u> |
| Income (loss) before provision for income taxes | (1,043,275) | 759,282 |
| Income tax expense (benefit) | <u>(301,081)</u> | <u>151,957</u> |
| Net income (loss) | (742,194) | 607,325 |
| Accretion to redemption value of redeemable convertible preferred stock | <u>407,265</u> | <u>-</u> |
| Net income (loss) applicable to common stockholders | \$ <u>(1,149,459)</u> | <u>607,325</u> |
| Basic net income (loss) per share applicable to common stockholders | \$ (0.09) | \$ 0.02 |
| Fully diluted net income (loss) per share applicable to common stockholders | \$ (0.09) | \$ 0.02 |
| Shares used to calculate basic net income (loss) per share applicable to common stockholders | 13,416,544 | 25,397,658 |
| Shares used to calculate fully diluted net income (loss) per share applicable to common stockholders | 13,416,544 | 27,674,735 |

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

| | Predecessor Period | Successor Period | Combined 2003 Periods | Successor Period |
|---|---|---|---|---------------------------------------|
| | Period from January 1 to February 28, 2003 | Period from January 17 (inception) to December 31, 2003 | Combined Period January 1 to December 31, 2003 | Year ended December 31, 2004 |
| Revenue | \$ 3,071,055 | 19,892,158 | 22,963,213 | 43,804,272 |
| Expenses: | | | | |
| Service costs | 1,732,813 | 11,292,070 | 13,024,883 | 27,449,938 |
| Sales and marketing | 365,043 | 2,460,683 | 2,825,726 | 4,414,043 |
| Product development | 144,479 | 1,291,422 | 1,435,901 | 2,291,430 |
| General and administrative | 234,667 | 2,743,919 | 2,978,586 | 4,111,544 |
| Acquisition-related retention consideration | - | 283,269 | 283,269 | 499,080 |
| Facility relocation | - | - | - | 199,960 |
| Stock-based compensation | 38,981 | 2,125,110 | 2,164,091 | 890,520 |
| Amortization of intangible assets acquired in business combinations | - | 3,023,408 | 3,023,408 | 4,965,503 |
| Total operating expenses | <u>2,515,983</u> | <u>23,219,881</u> | <u>25,735,864</u> | <u>44,822,018</u> |
| Income (loss) from operations | 555,072 | (3,327,723) | (2,772,651) | (1,017,746) |
| Other income (expense): | | | | |
| Interest income | 1,529 | 45,874 | 47,403 | 265,354 |
| Interest expense | - | - | - | (5,654) |
| Adjustment to fair value of redemption obligation | - | 25,500 | 25,500 | 55,250 |
| Other | - | 2,685 | 2,685 | 3,644 |
| Total other income | <u>1,529</u> | <u>74,059</u> | <u>75,588</u> | <u>318,594</u> |
| Income (loss) before provision for income taxes | 556,601 | (3,253,664) | (2,697,063) | (699,152) |
| Income tax expense (benefit) | <u>224,082</u> | <u>(1,084,312)</u> | <u>(860,230)</u> | <u>33,941</u> |
| Net income (loss) | 332,519 | (2,169,352) | (1,836,833) | (733,093) |
| Accretion to redemption value of redeemable convertible preferred stock | <u>-</u> | <u>1,318,885</u> | <u>1,318,885</u> | <u>420,430</u> |
| Net income (loss) applicable to common stockholders | <u>\$ 332,519</u> | <u>(3,488,237)</u> | <u>(3,155,718)</u> | <u>(1,153,523)</u> |
| Basic net loss per share applicable to common stockholders | | \$ (0.26) | | \$ (0.05) |
| Fully diluted net loss per share applicable to common stockholders | | \$ (0.18) | | \$ (0.05) |
| Shares used to calculate basic net loss per share applicable to common stockholders | | 13,259,747 | | 22,087,503 |
| Shares used to calculate fully diluted net loss per share applicable to common stockholders | | 19,011,093 | | 22,087,503 |

(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 period of January 17, 2003 (inception) through February 28, 2003 were different from the operating activities of Enhance Interactive. 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 December 31, 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 | December 31, 2004 |
|---|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| Current assets: | | |
| Cash and cash equivalents | \$ 6,019,119 | 24,933,066 |
| Accounts receivable, net | 1,627,730 | 4,773,646 |
| Prepaid expenses and other current assets | 433,109 | 1,415,673 |
| Deferred tax assets | 263,193 | 522,754 |
| Total current assets | <u>8,343,151</u> | <u>31,645,139</u> |
| Property and equipment, net | 994,793 | 1,508,446 |
| Intangibles and other assets | 409,878 | 1,067,896 |
| Goodwill | 17,252,999 | 32,375,966 |
| Intangible assets acquired in business combinations | 6,701,791 | 4,996,289 |
| Total assets | <u>\$ 33,702,612</u> | <u>71,593,736</u> |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,842,229 | 6,227,274 |
| Accrued expenses and other current liabilities | 1,284,492 | 1,170,039 |
| Deferred revenue | 848,958 | 1,947,617 |
| Earn-out liability payable | 3,525,995 | 6,237,578 |
| Total current liabilities | <u>8,501,674</u> | <u>15,582,508</u> |
| Deferred tax liabilities | 1,829,687 | 245,657 |
| Other non-current liabilities | 96,517 | 93,539 |
| Total liabilities | <u>10,427,878</u> | <u>15,921,704</u> |
| 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 | 135,115 |
| Additional paid-in capital | 6,716,734 | 60,577,997 |
| Deferred stock-based compensation | (1,532,340) | (521,820) |
| Accumulated deficit | (3,488,237) | (4,641,760) |
| Total stockholders' equity | <u>1,834,332</u> | <u>55,672,032</u> |
| Total liabilities and stockholders' equity | <u>\$ 33,702,612</u> | <u>71,593,736</u> |

MARCHEX, INC. AND SUBSIDIARIES

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

| | Quarter ended December 31, 2003 | Quarter ended December 31, 2004 |
|---|--|--|
| Adjusted operating income before amortization (Adjusted OIBA) | \$ 731,217 | 2,444,528 |
| Acquisition-related retention consideration | <u>(283,269)</u> | <u>(124,222)</u> |
| Operating income before amortization (OIBA) | 447,948 | 2,320,306 |
| Stock-based compensation | (537,634) | (169,117) |
| Amortization of intangible assets acquired in business combinations | <u>(994,146)</u> | <u>(1,491,527)</u> |
| Income (loss) from operations | (1,083,832) | 659,662 |
| Other income (expense): | | |
| Interest income | 40,557 | 101,546 |
| Interest expense | <u>-</u> | <u>(1,926)</u> |
| Total other income | 40,557 | 99,620 |
| Income (loss) before provision for income taxes | (1,043,275) | 759,282 |
| Income tax expense (benefit) | <u>(301,081)</u> | <u>151,957</u> |
| Net income (loss) | (742,194) | 607,325 |
| Accretion to redemption value of redeemable convertible preferred stock | <u>407,265</u> | <u>-</u> |
| Net income (loss) applicable to common stockholders | <u>\$ (1,149,459)</u> | <u>607,325</u> |

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

We report operating income before amortization (OIBA) that is a supplemental measure to GAAP. OIBA represents income (loss) from operations before: (1) stock-based compensation expense; and (2) amortization of intangible assets acquired in business combinations. This measure, among other things, is one of the primary metrics by which we evaluate the performance of our business. Additionally, management uses Adjusted OIBA which excludes acquisition-related retention consideration as we view this as part of the earn-out consideration from the Enhance Interactive transaction. Adjusted OIBA is the basis on which our internal budgets are based and by which management is currently 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 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 and acquisition-related accounting. 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.

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

| | <u>Predecessor Period</u> | <u>Successor Period</u> | <u>Combined 2003 Periods</u> | <u>Successor Period</u> |
|---|---|---|---|---------------------------------------|
| | Period from January 1 to February 28, 2003 | Period from January 17 (inception) to December 31, 2003 | Combined Period January 1 to December 31, 2003 | Year ended December 31, 2004 |
| Adjusted operating income before amortization (Adjusted OIBA) | \$ 594,053 | 2,104,064 | 2,698,117 | 5,537,317 |
| Acquisition-related retention consideration | - | (283,269) | (283,269) | (499,080) |
| Facility relocation | - | - | - | (199,960) |
| Operating income before amortization (OIBA) | 594,053 | 1,820,795 | 2,414,848 | 4,838,277 |
| Stock-based compensation | (38,981) | (2,125,110) | (2,164,091) | (890,520) |
| Amortization of intangible assets acquired in business combinations | - | (3,023,408) | (3,023,408) | (4,965,503) |
| Income (loss) from operations | 555,072 | (3,327,723) | (2,772,651) | (1,017,746) |
| Other income (expense): | | | | |
| Interest income | 1,529 | 45,874 | 47,403 | 265,354 |
| Interest expense | - | - | - | (5,654) |
| Adjustment to fair value of redemption obligation | - | 25,500 | 25,500 | 55,250 |
| Other | - | 2,685 | 2,685 | 3,644 |
| Total other income | 1,529 | 74,059 | 75,588 | 318,594 |
| Income (loss) before provision for income taxes | 556,601 | (3,253,664) | (2,697,063) | (699,152) |
| Income tax expense (benefit) | 224,082 | (1,084,312) | (860,230) | 33,941 |
| Net income (loss) | 332,519 | (2,169,352) | (1,836,833) | (733,093) |
| Accretion to redemption value of redeemable convertible preferred stock | - | 1,318,885 | 1,318,885 | 420,430 |
| Net income (loss) applicable to common stockholders | \$ 332,519 | (3,488,237) | (3,155,718) | (1,153,523) |

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(B) Presentation of Financial Reporting Periods

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