

MARCHEX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(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 March 31, 2003	Combined Period January 1 to March 31, 2003	Quarter ended March 31, 2004
Revenue	\$ 3,071,055	1,715,933	4,786,988	7,601,911
Expenses:				
Service costs	1,732,813	883,280	2,616,093	4,779,575
Sales and marketing	365,043	214,615	579,658	1,009,972
Product development	144,479	104,947	249,426	505,535
General and administrative	234,667	426,919	661,586	694,748
Acquisition-related retention consideration	-	-	-	132,936
Facility relocation	-	-	-	230,459
Stock-based compensation	38,981	710,991	749,972	360,764
Amortization of intangible assets	-	290,087	290,087	1,034,868
Total operating expenses	<u>2,515,983</u>	<u>2,630,839</u>	<u>5,146,822</u>	<u>8,748,857</u>
Income (loss) from operations	555,072	(914,906)	(359,834)	(1,146,946)
Other income (expense):				
Interest income	1,529	3,092	4,621	11,016
Interest expense	-	-	-	(325)
Adjustment to fair value of redemption obligation	-	-	-	55,250
Other	-	-	-	3,644
Total other income	<u>1,529</u>	<u>3,092</u>	<u>4,621</u>	<u>69,585</u>
Income (loss) before provision for income taxes	556,601	(911,814)	(355,213)	(1,077,361)
Income tax expense (benefit)	<u>224,082</u>	<u>(323,092)</u>	<u>(99,010)</u>	<u>(53,700)</u>
Net income (loss)	332,519	(588,722)	(256,203)	(1,023,661)
Accretion to redemption value of redeemable convertible preferred stock	<u>-</u>	<u>119,081</u>	<u>119,081</u>	<u>402,679</u>
Net income (loss) applicable to common stockholders	<u>\$ 332,519</u>	<u>(707,803)</u>	<u>(375,284)</u>	<u>(1,426,340)</u>
Basic and diluted net loss per share applicable to common stockholders		\$ (0.05)		\$ (0.11)
Shares used to calculate basic and diluted net loss per share applicable to common stockholders		13,074,041		13,446,542

(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 first quarter of 2004 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 March 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)

	December 31, 2003	March 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,019,119	6,487,354
Stock subscription receivable	-	28,405,100
Accounts receivable, net	1,627,730	1,780,550
Prepaid expenses and other current assets	433,109	395,827
Deferred tax assets	263,193	391,515
Total current assets	<u>8,343,151</u>	<u>37,460,346</u>
Property and equipment, net	994,793	1,009,026
Other assets	409,878	95,080
Goodwill	17,252,999	17,279,035
Identifiable intangible assets, net	<u>6,701,791</u>	<u>5,666,923</u>
Total assets	<u>\$ 33,702,612</u>	<u>61,510,410</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,842,229	3,804,971
Accrued expenses and other current liabilities	1,284,492	1,499,811
Deferred revenue	848,958	1,146,437
Earn-out liability payable	<u>3,525,995</u>	<u>3,658,931</u>
Total current liabilities	8,501,674	10,110,150
Non-current liabilities	<u>1,926,204</u>	<u>1,545,644</u>
Total liabilities	10,427,878	11,655,794
Series A redeemable convertible preferred stock	21,440,402	21,843,081
Stockholders' equity:		
Class A common stock	122,500	122,500
Class B common stock	15,675	15,679
Class B common stock and warrants subscribed	-	27,240,503
Additional paid-in capital	6,716,734	6,719,006
Deferred stock-based compensation	(1,532,340)	(1,171,576)
Accumulated deficit	<u>(3,488,237)</u>	<u>(4,914,577)</u>
Total stockholders' equity	<u>1,834,332</u>	<u>28,011,535</u>
Total liabilities and stockholders' equity	<u>\$ 33,702,612</u>	<u>61,510,410</u>

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	Combined 2003 Periods	Successor Period
	Period from January 1 to February 28, 2003	Period from January 17 (inception) to March 31, 2003	Combined Periods January 1 to March 31, 2003	Quarter ended March 31, 2004
Adjusted operating income before amortization (Adjusted OIBA)	\$ 594,053	86,172	680,225	612,081
Acquisition-related retention consideration	-	-	-	(132,936)
Facility relocation	-	-	-	(230,459)
Operating income before amortization (OIBA)	594,053	86,172	680,225	248,686
Stock-based compensation	(38,981)	(710,991)	(749,972)	(360,764)
Amortization of intangible assets	-	(290,087)	(290,087)	(1,034,868)
Income (loss) from operations	555,072	(914,906)	(359,834)	(1,146,946)
Other income (expense):				
Interest income	1,529	3,092	4,621	11,016
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Other	-	-	-	3,644
Total other income	1,529	3,092	4,621	69,585
Income (loss) before provision for income taxes	556,601	(911,814)	(355,213)	(1,077,361)
Income tax expense (benefit)	224,082	(323,092)	(99,010)	(53,700)
Net income (loss)	332,519	(588,722)	(256,203)	(1,023,661)
Accretion to redemption value of redeemable convertible preferred stock	-	119,081	119,081	402,679
Net income (loss) applicable to common stockholders	\$ 332,519	(707,803)	(375,284)	(1,426,340)

(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 Interactive 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 first quarter of 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 it represents 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 first quarter of 2004 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 March 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.

