

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

	Successor Periods	
	Quarter ended September 30, 2003	Quarter ended September 30, 2004
Revenue	\$ 5,359,274	12,215,835
Expenses:		
Service costs	2,967,206	7,619,496
Sales and marketing	723,753	1,156,314
Product development	384,248	602,478
General and administrative	659,177	1,072,504
Acquisition-related retention consideration	-	119,199
Facility relocation	-	(30,499)
Stock-based compensation	326,407	125,405
Amortization of intangible assets	869,588	1,404,464
Total operating expenses	5,930,379	12,069,361
Income (loss) from operations	(571,105)	146,474
Other income (expense):		
Interest income	16,931	82,462
Interest expense	-	(1,915)
Total other income	16,931	80,547
Income (loss) before provision for income taxes	(554,174)	227,021
Income tax expense (benefit)	(196,368)	82,787
Net income (loss)	(357,806)	144,234
Accretion to redemption value of redeemable convertible preferred stock	407,265	-
Net income (loss) applicable to common stockholders	\$ (765,071)	144,234
Basic net income (loss) per share applicable to common stockholders	\$ (0.06)	\$ 0.01
Fully diluted net income (loss) per share applicable to common stockholders	\$ (0.06)	\$ 0.01
Shares used to calculate basic net income (loss) per share applicable to common stockholders	12,992,500	25,166,363
Shares used to calculate fully diluted net income (loss) per share applicable to common stockholders	12,992,500	26,968,840

MARCHEX, INC. AND SUBSIDIARIES
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(unaudited)

	Predecessor Period	Successor Period	Combined 2003 Periods	Successor Period
	Period from January 1 to February 28, 2003	Period from January 17 (inception) to September 30, 2003	Combined Period January 1 to September 30, 2003	Nine months ended September 30, 2004
Revenue	\$ 3,071,055	12,431,493	15,502,548	28,682,924
Expenses:				
Service costs	1,732,813	6,806,021	8,538,834	18,142,886
Sales and marketing	365,043	1,592,722	1,957,765	3,196,996
Product development	144,479	844,399	988,878	1,636,321
General and administrative	234,667	1,816,522	2,051,189	2,613,932
Acquisition-related retention consideration	-	-	-	374,858
Facility relocation	-	-	-	199,960
Stock-based compensation	38,981	1,587,476	1,626,457	721,403
Amortization of intangible assets	-	2,028,244	2,028,244	3,473,976
Total operating expenses	<u>2,515,983</u>	<u>14,675,384</u>	<u>17,191,367</u>	<u>30,360,332</u>
Income (loss) from operations	555,072	(2,243,891)	(1,688,819)	(1,677,408)
Other income (expense):				
Interest income	1,529	33,502	35,031	163,808
Interest expense	-	-	-	(3,728)
Adjustment to fair value of redemption obligation	-	-	-	55,250
Other	-	-	-	3,644
Total other income	<u>1,529</u>	<u>33,502</u>	<u>35,031</u>	<u>218,974</u>
Income (loss) before provision for income taxes	556,601	(2,210,389)	(1,653,788)	(1,458,434)
Income tax expense (benefit)	<u>224,082</u>	<u>(783,231)</u>	<u>(559,149)</u>	<u>(118,016)</u>
Net income (loss)	332,519	(1,427,158)	(1,094,639)	(1,340,418)
Accretion to redemption value of redeemable convertible preferred stock	-	911,620	911,620	420,430
Net income (loss) applicable to common stockholders	<u>\$ 332,519</u>	<u>(2,338,778)</u>	<u>(2,006,259)</u>	<u>(1,760,848)</u>
Basic net income (loss) per share applicable to common stockholders		\$ (0.18)		\$ (0.08)
Fully diluted net income (loss) per share applicable to common stockholders		\$ (0.18)		\$ (0.08)
Shares used to calculate basic net income (loss) per share applicable to common stockholders		13,203,398		20,971,993
Shares used to calculate fully diluted net income (loss) per share applicable to common stockholders		13,203,398		20,971,993

(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 nine months ended September 30, 2004 were different from the operating activities of Enhance Interactive for the 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 September 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	September 30, 2004
	<u> </u>	<u> </u>
Current assets:		
Cash and cash equivalents	\$ 6,019,119	24,772,316
Accounts receivable, net	1,627,730	2,301,249
Prepaid expenses and other current assets	433,109	421,800
Deferred tax assets	263,193	513,404
Total current assets	<u>8,343,151</u>	<u>28,008,769</u>
Property and equipment, net	994,793	1,279,962
Other assets	409,878	61,465
Goodwill	17,252,999	26,666,058
Identifiable intangible assets, net	6,701,791	6,487,815
Total assets	<u>\$ 33,702,612</u>	<u>62,504,069</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,842,229	3,868,745
Accrued expenses and other current liabilities	1,284,492	1,267,990
Deferred revenue	848,958	1,755,738
Earn-out liability payable	3,525,995	377,547
Total current liabilities	<u>8,501,674</u>	<u>7,270,020</u>
Deferred tax liabilities	1,829,687	658,043
Other non-current liabilities	96,517	112,378
Total liabilities	<u>10,427,878</u>	<u>8,040,441</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	134,216
Additional paid-in capital	6,716,734	60,146,934
Deferred stock-based compensation	(1,532,340)	(690,937)
Accumulated deficit	(3,488,237)	(5,249,085)
Total stockholders' equity	<u>1,834,332</u>	<u>54,463,628</u>
Total liabilities and stockholders' equity	<u>\$ 33,702,612</u>	<u>62,504,069</u>

MARCHEX, INC. AND SUBSIDIARIES

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

	Successor Periods	
	Quarter ended September 30, 2003	Quarter ended September 30, 2004
Adjusted operating income before amortization (Adjusted OIBA)	\$ 624,890	1,765,043
Acquisition-related retention consideration	-	(119,199)
Facility relocation	-	30,499
Operating income before amortization (OIBA)	624,890	1,676,343
Stock-based compensation	(326,407)	(125,405)
Amortization of intangible assets	(869,588)	(1,404,464)
Income (loss) from operations	(571,105)	146,474
Other income (expense):		
Interest income	16,931	82,462
Interest expense	-	(1,915)
Total other income	16,931	80,547
Income (loss) before provision for income taxes	(554,174)	227,021
Income tax expense (benefit)	(196,368)	82,787
Net income (loss)	(357,806)	144,234
Accretion to redemption value of redeemable convertible preferred stock	407,265	-
Net income (loss) applicable to common stockholders	\$ (765,071)	144,234

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

We report OIBA, which is a supplemental measure to GAAP. OIBA represents income (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 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 (benefit) recognized in the nine months ended September 30, 2004 and earn-out consideration related 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.

MARCHEX, INC. AND SUBSIDIARIES
Reconciliation of Adjusted Operating Income Before Amortization and Operating Income Before Amortization (OIBA) to GAAP Net Income (Loss)
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	Predecessor Period	Successor Period	Combined 2003 Periods	Successor Period
	Period from January 1 to February 28, 2003	Period from January 17 (inception) to September 30, 2003	Combined Period January 1 to September 30, 2003	Nine months ended September 30, 2004
Adjusted operating income before amortization (Adjusted OIBA)	\$ 594,053	1,371,829	1,965,882	3,092,789
Acquisition-related retention consideration	-	-	-	(374,858)
Facility relocation	-	-	-	(199,960)
Operating income before amortization (OIBA)	594,053	1,371,829	1,965,882	2,517,971
Stock-based compensation	(38,981)	(1,587,476)	(1,626,457)	(721,403)
Amortization of intangible assets	-	(2,028,244)	(2,028,244)	(3,473,976)
Income (loss) from operations	555,072	(2,243,891)	(1,688,819)	(1,677,408)
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(B) Presentation of Financial Reporting Periods

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