

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

	Three Months Ended December 31,	
	2005	2006
Revenue	<u>\$ 29,804,165</u>	<u>\$ 32,606,314</u>
Expenses:		
Service costs (1)	14,079,313	15,377,218
Sales and marketing (1)	4,744,916	5,814,305
Product development (1)	1,242,557	2,624,636
General and administrative (1)	2,353,334	3,168,286
Amortization of acquired intangible assets	5,204,501	5,121,162
Total operating expenses	<u>27,624,621</u>	<u>32,105,607</u>
Gain (loss) on sales and disposals of intangible assets, net	<u>997</u>	<u>85,194</u>
Income from operations	2,180,541	585,901
Interest income and other, net	<u>589,820</u>	<u>835,992</u>
Income before provision for income taxes	2,770,361	1,421,893
Income tax expense	<u>1,099,597</u>	<u>1,984,954</u>
Net income (loss)	1,670,764	(563,061)
Convertible preferred stock dividends and discount on preferred stock redemption	<u>691,161</u>	<u>(5,535,570)</u>
Net income applicable to common stockholders	<u>\$ 979,603</u>	<u>\$ 4,972,509</u>
Basic net income per share applicable to common stockholders	\$ 0.03	\$ 0.13
Diluted net income (loss) per share applicable to common stockholders	\$ 0.03	\$ (0.01) (2)
Shares used to calculate basic net income per share applicable to common stockholders	36,576,273	38,845,086
Shares used to calculate diluted net income (loss) per share applicable to common stockholders	39,154,814	39,745,623 (2)
(1) Includes stock compensation allocated as follows:		
Service costs	\$ 900	\$ 417,166
Sales and marketing	354,766	160,102
Product development	6,040	831,983
General and administrative	408,436	1,224,911
Total stock compensation expense	<u>\$ 770,142</u>	<u>\$ 2,634,162</u>

Prior to January 1, 2006, Marchex accounted for stock compensation under Accounting Principles Board, Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). In accordance with APB 25, Marchex historically used the intrinsic value method to account for stock compensation. As of January 1, 2006, Marchex accounts for stock compensation under the fair value method as prescribed by Statement of Financial Accounting Standards No. 123-R (SFAS 123R). As Marchex adopted the modified prospective method, results for the prior year have not been restated under the fair value method for GAAP purposes.

In accordance with SEC Staff Accounting Bulletin No. 107, stock-based compensation is no longer presented as a separate line item on the Consolidated Statement of Operations. The stock-based compensation is now presented in the same lines as cash compensation paid to the same individuals. Stock-based compensation recognized in the prior period has been reclassified to conform with the presentation in the current period.

(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)

	Twelve Months Ended	
	December 31,	
	2005	2006
Revenue	\$ 94,995,847	\$ 127,759,475
Expenses:		
Service costs (1)	48,901,826	60,433,611
Sales and marketing (1)	11,127,037	23,050,654
Product development (1)	4,494,558	10,094,967
General and administrative (1)	7,194,905	13,533,215
Amortization of acquired intangible assets	18,429,008	20,465,128
Total operating expenses	<u>90,147,334</u>	<u>127,577,575</u>
Gain (loss) on sales and disposals of intangible assets, net	<u>997</u>	<u>369,960</u>
Income from operations	4,849,510	551,860
Interest income and other, net	<u>1,978,759</u>	<u>3,143,363</u>
Income before provision for income taxes	6,828,269	3,695,223
Income tax expense	<u>2,920,463</u>	<u>4,290,201</u>
Income (loss) before cumulative effect of a change in accounting principle	3,907,806	(594,978)
Cumulative effect of a change in accounting principle, net of tax (2)	<u>-</u>	<u>151,341</u>
Net income (loss)	3,907,806	(443,637)
Convertible preferred stock dividends, conversion payment and discount on preferred stock redemption	<u>2,405,780</u>	<u>(3,197,341)</u>
Net income applicable to common stockholders	<u>\$ 1,502,026</u>	<u>\$ 2,753,704</u>
Basic net income per share applicable to common stockholders	\$ 0.04	\$ 0.07
Diluted net income (loss) per share applicable to common stockholders	\$ 0.04	\$ (0.04) (3)
Shares used to calculate basic net income per share applicable to common stockholders	34,564,790	38,261,884
Shares used to calculate diluted net income (loss) per share applicable to common stockholders	36,907,633	39,500,123 (3)
(1) Includes stock compensation allocated as follows:		
Service costs	\$ 4,500	\$ 1,177,773
Sales and marketing	1,108,180	2,996,945
Product development	28,795	3,278,513
General and administrative	830,332	5,338,287
Total stock compensation expense	<u>\$ 1,971,807</u>	<u>\$ 12,791,518</u>

Prior to January 1, 2006, Marchex accounted for stock compensation under Accounting Principles Board, Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). In accordance with APB 25, Marchex historically used the intrinsic value method to account for stock compensation. As of January 1, 2006, Marchex accounts for stock compensation under the fair value method as prescribed by Statement of Financial Accounting Standards No. 123-R (SFAS 123R). As Marchex adopted the modified prospective method, results for the prior year have not been restated under the fair value method for GAAP purposes.

In accordance with SEC Staff Accounting Bulletin No. 107, stock-based compensation is no longer presented as a separate line item on the Consolidated Statement of Operations. The stock-based compensation is now presented in the same lines as cash compensation paid to the same individuals. Stock-based compensation recognized in the prior period has been reclassified to conform with the presentation in the current period.

(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 \$1.4 million. 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	December 31, 2005	December 31, 2006
Current assets:		
Cash and cash equivalents	\$ 63,090,941	\$ 46,105,827
Trade accounts receivable, net	14,401,814	22,035,343
Prepaid expenses and other current assets	1,818,211	2,221,550
Refundable taxes	3,835,542	1,837,166
Deferred income tax assets	428,855	670,624
Total current assets	<u>83,575,363</u>	<u>72,870,510</u>
Property and equipment, net	3,402,262	7,280,075
Deferred income tax assets	-	2,444,782
Intangibles and other assets, net	15,447,504	13,318,801
Goodwill	180,637,076	200,738,098
Intangible assets from acquisitions, net	<u>51,346,944</u>	<u>36,735,570</u>
Total assets	<u><u>\$ 334,409,149</u></u>	<u><u>\$ 333,387,836</u></u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 9,258,423	\$ 10,739,231
Accrued expenses and other current liabilities	1,755,970	2,913,152
Deferred revenue	<u>2,291,374</u>	<u>2,430,644</u>
Total current liabilities	13,305,767	16,083,027
Deferred income tax liabilities	397,481	-
Other non-current liabilities	<u>92,309</u>	<u>91,907</u>
Total liabilities	13,795,557	16,174,934
Stockholders' equity:		
Convertible preferred stock	54,121,678	2,342,884
Class A common stock	119,282	119,217
Class B common stock	254,839	276,361
Additional paid-in capital	271,949,963	320,607,113
Deferred stock-based compensation	(3,042,016)	-
Accumulated deficit	<u>(2,790,154)</u>	<u>(6,132,673)</u>
Total stockholders' equity	<u>320,613,592</u>	<u>317,212,902</u>
Total liabilities and stockholders' equity	<u><u>\$ 334,409,149</u></u>	<u><u>\$ 333,387,836</u></u>

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

	Three months ended December 31, 2005	Three months ended December 31, 2006	Twelve months ended December 31, 2005	Twelve months ended December 31, 2006
Revenue, as reported	\$ 29,804,165	\$ 32,606,314	\$ 94,995,847	\$ 127,759,475
Name Development pro forma revenue	-	-	2,544,459	-
Pike Street pro forma revenue	-	-	1,230,494	-
IndustryBrains pro forma revenue	-	-	6,188,897	-
AreaConnect pro forma revenue	404,729	-	1,297,335	649,675
Open List pro forma revenue	75,378	-	134,731	156,511
Pro forma eliminations	<u>(16,872)</u>	<u>-</u>	<u>(52,958)</u>	<u>(22,259)</u>
Pro forma Revenue	<u>\$ 30,267,400</u>	<u>\$ 32,606,314</u>	<u>\$ 106,338,805</u>	<u>\$ 128,543,402</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,	
	2005	2006
Net income applicable to common stockholders	\$ 979,603	\$ 4,972,509
Convertible preferred stock dividends and discount on preferred stock redemption	<u>691,161</u>	<u>(5,535,570)</u>
Net income (loss)	1,670,764	(563,061)
Income tax expense	<u>1,099,597</u>	<u>1,984,954</u>
Income before provision for income taxes	2,770,361	1,421,893
Interest income and other, net	<u>(589,820)</u>	<u>(835,992)</u>
Income from operations	2,180,541	585,901
Stock-based compensation	770,142	2,634,162
Amortization of acquired intangible assets	<u>5,204,501</u>	<u>5,121,162</u>
Operating income before amortization (OIBA)	8,155,184	8,341,225
Gain/loss on sales and disposals of intangible assets, net	<u>(997)</u>	<u>(85,194)</u>
Adjusted operating income before amortization (Adjusted OIBA)	<u>\$ 8,154,187</u>	<u>\$ 8,256,031</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)

	Twelve Months Ended	
	December 31,	
	2005	2006
Net income applicable to common stockholders	\$ 1,502,026	\$ 2,753,704
Convertible preferred stock dividends, conversion payment and discount on preferred stock redemption	<u>2,405,780</u>	<u>(3,197,341)</u>
Net income (loss)	3,907,806	(443,637)
Cumulative effect of a change in accounting principle, net of tax (1)	<u>-</u>	<u>151,341</u>
Income (loss) before cumulative effect of a change in accounting principle	3,907,806	(594,978)
Income tax expense	<u>2,920,463</u>	<u>4,290,201</u>
Income before provision for income taxes	6,828,269	3,695,223
Interest income and other, net	<u>(1,978,759)</u>	<u>(3,143,363)</u>
Income from operations	4,849,510	551,860
Stock-based compensation	1,971,807	12,791,518
Amortization of acquired intangible assets	<u>18,429,008</u>	<u>20,465,128</u>
Operating income before amortization (OIBA)	25,250,325	33,808,506
Gain/loss on sales and disposals of intangible assets, net	<u>(997)</u>	<u>(369,960)</u>
Adjusted operating income before amortization (Adjusted OIBA)	<u>\$ 25,249,328</u>	<u>\$ 33,438,546</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,	
	2005	2006
Net cash provided by operating activities	\$ 7,388,189	\$ 3,945,461
Changes in asset and liabilities, net of effects of acquisitions	3,975,395	4,444,289
Provision for income taxes	1,099,597	1,984,954
Other item - facility relocation	21,716	(10,932)
Interest income and other, net	(589,820)	(835,592)
Income and excess tax benefits related to stock options	(2,399,522)	466,259
Adjusted EBITDA	<u>\$ 9,495,555</u>	<u>\$ 9,994,439</u>

	Twelve Months Ended	
	December 31,	
	2005	2006
Net cash provided by operating activities	\$ 17,456,819	\$ 30,779,279
Changes in asset and liabilities, net of effects of acquisitions	14,270,268	5,069,636
Provision for income taxes	2,920,463	4,290,201
Other item - facility relocation	58,406	32,499
Interest income and other, net	(1,974,759)	(3,152,727)
Income and excess tax benefits related to stock options	(3,197,684)	2,491,610
Adjusted EBITDA	<u>\$ 29,533,513</u>	<u>\$ 39,510,498</u>

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

	Three Months Ended	
	December 31,	
	2005	2006
	<u>\$</u>	<u>\$</u>
Adjusted Non-GAAP EPS	<u>0.11</u>	<u>0.13</u>
Net income (loss) per share applicable to common stockholders - diluted (GAAP EPS)	\$ 0.03	\$ (0.01)
Shares used to calculate diluted net income (loss) per share applicable to common stockholders	39,154,814	39,745,623
Net income applicable to common stockholders	\$ 979,603	\$ 4,972,509
Discount on preferred stock redemption	-	(5,761,134)
Stock-based compensation	770,142	2,634,162
Amortization of acquired intangible assets	5,204,501	5,121,162
Gain/loss on sales and disposals of intangible assets, net	(997)	(85,194)
Interest income and other, net	(589,820)	(835,992)
Estimated impact of income taxes	<u>(1,945,176)</u>	<u>(975,429)</u>
Adjusted Non-GAAP net income applicable to common stockholders	<u>\$ 4,418,253</u>	<u>\$ 5,070,084</u>
Adjusted Non-GAAP EPS	<u>\$ 0.11</u>	<u>\$ 0.13</u>
Shares used to calculate diluted net income (loss) per share applicable to common stockholders	39,154,814	39,745,623
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>153,368</u>	<u>1,591,877</u>
Shares used to calculate Adjusted Non-GAAP EPS	<u>39,308,182</u>	<u>40,436,963</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 Diluted EPS to Adjusted Non-GAAP EPS
(unaudited)

	Twelve Months Ended December 31,	
	2005	2006
Adjusted Non-GAAP EPS	<u>\$ 0.36</u>	<u>\$ 0.47</u>
Net income (loss) per share applicable to common stockholders - diluted (GAAP EPS)	\$ 0.04	\$ (0.04)
Shares used to calculate diluted net income (loss) per share applicable to common stockholders	36,907,633	39,500,123
Net income applicable to common stockholders	\$ 1,502,026	\$ 2,753,704
Discount on preferred stock redemption	-	(5,761,134)
Stock-based compensation	1,971,807	12,791,518
Amortization of acquired intangible assets	18,429,008	20,465,128
Gain/loss on sales and disposals of intangible assets, net	(997)	(369,960)
Cumulative effect of a change in accounting principle, net of tax (1)	-	(151,341)
Interest income and other, net	(1,978,759)	(3,143,363)
Estimated impact of income taxes	<u>(6,520,261)</u>	<u>(7,730,395)</u>
Adjusted Non-GAAP net income applicable to common stockholders	<u>\$ 13,402,824</u>	<u>\$ 18,854,157</u>
Adjusted Non-GAAP EPS	<u>\$ 0.36</u>	<u>\$ 0.47</u>
Shares used to calculate diluted net income (loss) per share applicable to common stockholders	36,907,633	39,500,123
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)	78,947	2,090,623
Shares used to calculate Adjusted Non-GAAP EPS	<u>36,986,580</u>	<u>40,352,507</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.