MARCHEX INC
Form 10-Q
August 07, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2009

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission File Number 000-50658

Marchex, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**35-2194038**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

413 Pine Street, Suite 500

Seattle, Washington 98101

(Address of principal executive offices)

Registrant s telephone number, including area code: (206) 331-3300

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its Corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date.

Class	Outstanding at August 6, 2009
Class A common stock, par value $.01 per share	10,869,216
Class B common stock, par value $.01 per share	25,305,925

Table of Contents

Marchex, Inc.

Form 10-Q

Table of Contents

Table of Contents

Part I Financial Information

Item 1. Condensed Consolidated Financial Statements (unaudited)

MARCHEX, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(unaudited)

	December 31, 2008	June 30, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 27,418,396	$ 28,731,261
Trade accounts receivable, net	21,734,291	11,920,607
Prepaid expenses and other current assets	2,642,607	2,295,272
Refundable taxes	3,042,288	4,710,416
Deferred tax assets	1,088,872	952,076
Total current assets	55,926,454	48,609,632
Property and equipment, net	5,615,396	4,425,097
Deferred tax assets	56,784,228	55,328,727
Intangible and other assets, net	6,665,562	5,661,742
Goodwill	35,475,782	35,456,610
Intangible assets from acquisitions, net	9,802,365	6,332,777
Total assets	$ 170,269,787	$ 155,814,585
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 12,351,123	$ 7,138,620
Accrued expenses and other current liabilities	6,331,709	4,187,790
Deferred revenue	2,255,906	2,027,410
Total current liabilities	20,938,738	13,353,820
Other non-current liabilities	23,297	9,700
Total liabilities	20,962,035	13,363,520
Stockholders equity:		
Class A common stock	112,217	111,317
Class B common stock	286,736	255,519
Treasury stock	(15,392,921)	(1,000,832)
Additional paid-in capital	299,925,762	281,550,297
Accumulated deficit	(135,624,042)	(138,465,236)
Total stockholders equity	149,307,752	142,451,065
Total liabilities and stockholders equity	$ 170,269,787	$ 155,814,585

See accompanying notes to condensed consolidated financial statements.

3

MARCHEX, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(unaudited)

	Six Months Ended June, 30		Three Months Ended June 30,	
	2008	2009	2008	2009
Revenue	$ 74,406,214	$ 47,652,022	$ 37,363,887	$ 21,081,073
Expenses:				
Service costs (1), (2)	36,301,616	22,886,210	17,414,301	11,024,516
Sales and marketing (1), (2)	14,867,783	11,271,267	7,896,035	3,682,352
Product development (1), (2)	8,439,573	7,600,517	4,252,469	3,446,317
General and administrative (1), (2)	10,033,984	8,057,735	5,074,875	3,987,195
Amortization of intangible assets from acquisitions (3)	7,713,637	3,469,551	3,661,275	1,334,585
Total operating expenses	77,356,593	53,285,280	38,298,955	23,474,965
Gain on sales and disposals of intangible assets, net	2,155,267	1,784,855	2,010,576	854,616
Income (loss) from operations	(795,112)	(3,848,403)	1,075,508	(1,539,276)
Other income (expense):				
Interest income	449,782	28,670	162,633	12,516
Interest and line of credit expense	(34,231)	(45,493)	(30,907)	(31,581)
Other	1,855	13,041	1,354	126
Total other income (expense)	417,406	(3,782)	133,080	(18,939)
Income (loss) before provision for income taxes	(377,706)	(3,852,185)	1,208,588	(1,558,215)
Income tax (benefit) expense	393,276	(1,010,991)	733,229	(390,058)
Net income (loss)	(770,982)	(2,841,194)	475,359	(1,168,157)
Convertible preferred stock dividends and discount on preferred stock redemption, net	(44,585)		(33,697)	
Net income (loss) applicable to common stockholders	$ (726,397)	$ (2,841,194)	$ 509,056	$ (1,168,157)
Basic and diluted net income (loss) per share applicable to Class A and Class B common stockholders	$ (0.02)	$ (0.09)	$ 0.01	$ (0.04)
Dividends paid per share	$ 0.04	$ 0.04	$ 0.02	$ 0.02
Shares used to calculate basic net income (loss) per share applicable to common stockholders				
Class A	10,968,282	10,899,547	10,959,216	10,869,216
Class B	26,153,567	23,094,703	25,621,394	22,454,956
Shares used to calculate diluted net income (loss) per share applicable to common stockholders				
Class A	10,968,282	10,899,547	10,959,216	10,869,216
Class B	37,130,260	33,994,250	37,504,686	33,324,172
(1) Excludes amortization of intangible assets from acquisitions				
(2) Includes stock-based compensation as follows:				
Service costs	$ 225,658	$ 197,056	$ 86,087	$ 102,546

Sales and marketing	856,714	982,509	326,004	524,655
Product development	806,998	298,432	396,289	115,027
General and administrative	3,847,338	3,512,111	1,860,856	1,795,853
Total	$ 5,736,708	$ 4,990,108	$ 2,669,236	$ 2,538,081

(3) Components of amortization of intangible assets from acquisitions:

Service costs	$ 6,558,715	$ 3,425,107	$ 3,179,686	$ 1,323,474
Sales and marketing	954,444		406,111	
General and administrative	200,478	44,444	75,478	11,111
Total	$ 7,713,637	$ 3,469,551	$ 3,661,275	$ 1,334,585

See accompanying notes to condensed consolidated financial statements.

Table of Contents

MARCHEX, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2009
Cash flows from operating activities:		
Net loss	$ (770,982)	$ (2,841,194)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization and depreciation	12,937,704	6,690,386
Facility relocation costs	2,972	
Gain on sales of fixed assets, net	(1,855)	(565)
Gain on sales and disposals of intangible assets, net	(2,155,267)	(1,784,855)
Allowance for doubtful accounts and merchant advertiser credits	1,578,076	382,486
Stock-based compensation	5,736,708	4,990,108
Deferred income taxes	(2,294,219)	1,592,297
Excess tax benefit related to stock options	(53,541)	(49,477)
Change in certain assets and liabilities, net of acquisition:		
Trade accounts receivable, net	(5,678,151)	9,431,197
Refundable taxes	315,299	(2,644,998)
Prepaid expenses, other current assets and restricted cash	(1,296,458)	90,186
Accounts payable	1,962,988	(5,159,858)
Accrued expenses and other current liabilities	1,228,830	(2,127,210)
Deferred revenue	(290,940)	(229,301)
Other non current liabilities	(11,637)	(8,158)
Net cash provided by operating activities	11,209,527	8,331,044
Cash flows from investing activities:		
Purchases of property and equipment	(1,749,203)	(859,067)
Cash paid for acquisitions	(127,522)	
Proceeds from sales of property and equipment	37,024	565
Proceeds from sales of intangible assets	1,945,520	1,785,155
Increase in other non current assets	(188,862)	(5,545)
Net cash provided by (used in) investing activities	(83,043)	921,108
Cash flows from financing activities:		
Deferred financing costs paid	(71,150)	
Capital lease obligation principal payments	(21,939)	(21,584)
Excess tax benefit related to stock options	53,541	49,477
Preferred stock dividends	(31,387)	
Repurchase of redeemable preferred stock	(408,964)	
Common stock dividend payments	(1,625,339)	(1,457,415)
Repurchase of Class B common stock	(17,195,150)	(6,569,830)
Proceeds from exercises of stock options	674,433	35,417
Proceeds from employee stock purchase plan	22,122	24,648
Net cash used in financing activities	(18,603,833)	(7,939,287)
Net increase (decrease) in cash and cash equivalents	(7,477,349)	1,312,865
Cash and cash equivalents at beginning of period	36,456,307	27,418,396

Cash and cash equivalents at end of period	$ 28,978,958	$ 28,731,261

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Marchex, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(1) Description of Business and Basis of Presentation

Marchex, Inc. (the Company) was incorporated in the state of Delaware on January 17, 2003. The Company is a local search and performance advertising company. The Company s search- and call-based marketing solutions enable tens of thousands of local and national advertisers to reach consumers searching for products and services through a mix of search engines, vertical publisher Web sites and the Company s Local Search Network.

The accompanying unaudited condensed consolidated financial statements of Marchex, Inc. and its wholly-owned subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009, or for any other period. The balance sheet at December 31, 2008 has been derived from the audited consolidated financial statements at that date but does not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. These condensed consolidated financial statements and notes should be read in conjunction with the Company s audited consolidated financial statements and accompanying notes included in the Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC.

The condensed consolidated financial statements include the accounts of Marchex and its wholly-owned subsidiaries. Acquisitions are included in the Company s consolidated financial statements as of and from the date of acquisition. The Company s purchase accounting resulted in all assets and liabilities of acquired businesses being recorded at their estimated fair values on the acquisition dates. All significant inter-company transactions and balances have been eliminated in consolidation. Certain reclassifications have been made to the condensed consolidated financial statements in the prior year to conform to the current year presentation.

The Company s condensed consolidated financial statements presented include the condensed consolidated balance sheets as of December 31, 2008 and June 30, 2009, the condensed consolidated statements of operations for the three and six months ended June 30, 2008 and 2009 and the condensed consolidated statements of cash flows for the six months ended June 30, 2008 and 2009.

(2) Significant Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These judgments are difficult as matters that are inherently uncertain directly impact their valuation and accounting. Actual results may vary from management s estimates and assumptions.

There have been no changes to the Company s significant accounting policies as disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC, except for the adoption of FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1), FSP SFAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP SFAS 142-3), and SFAS No. 165, *Subsequent Events* (SFAS 165), as further discussed below.

Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), which clarifies the definition of fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. In February 2008, the FASB issued a FASB Staff Position (FSP) SFAS 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Accordingly, the Company adopted the required provisions of SFAS 157 on January 1, 2008 and the remaining provisions have been adopted by the Company at the beginning of fiscal year 2009. The 2008 fiscal year adoption of the required provisions did not result in a material impact to the Company s financial statements. The remaining aspects of SFAS 157 for which the effective date was deferred under FSP SFAS 157-2 did not result in a material impact to the Company s financial statements.

Table of Contents

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (SFAS 141R), which replaces SFAS 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed and any resulting goodwill. The pronouncement also provides for disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for the Company beginning on January 1, 2009. For any business combination that takes place subsequent to January 1, 2009, SFAS 141R may have a material impact on the Company s financial statements. The nature and extent of any such impact will depend upon the terms and conditions of the transaction. On April 1, 2009 the FASB issued FSP FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies* (FSP FAS 141(R)-1). FSP FAS 141(R)-1 amends and clarifies SFAS 141R to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP is effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after January 1, 2009.

In April 2008, the FASB issued FSP SFAS 142-3, which amends the factors that should be considered in developing renewal or extension assumptions used in determining the useful life of a recognized intangible asset. FSP SFAS 142-3 also adds additional disclosures to be included in the footnotes to the financial statements. FSP SFAS 142-3 is effective for fiscal years beginning after December 15, 2008 and interim periods within those years. The adoption of FSP SFAS 142-3 did not have a material impact on the Company s financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1, which addresses whether instruments granted in unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid are participating securities prior to vesting and would need to be included in the earnings allocation in computing earnings per share under the two-class method of SFAS No. 128, *Earnings per Share.* Under the two-class method required by EITF 03-6-1, a portion of net income (loss) is allocated to these participating securities and therefore is excluded from the calculation of EPS allocated to common stock. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 and interim periods within those years. The Company adopted this FSP on January 1, 2009 and retrospectively adjusted its earnings per share data to conform with the provisions in EITF 03-6-1. The retrospective application of this method did not have a material impact on the Company s financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 applies prospectively to both interim and annual financial periods ending after June 15, 2009. The Company adopted these requirements for the quarter ending June 30, 2009.

Revenues

The following table presents the Company s revenues, by revenue source, for the periods presented:

	Six months ended June 30,		Three months ended June 30,	
	2008	**2009**	**2008**	**2009**
Proprietary Traffic Sources	$ 31,266,435	$ 18,280,765	$ 16,599,077	$ 6,510,360
Partner and Other Revenue Sources	43,139,779	29,371,257	20,764,810	14,570,713
Total Revenue	$ 74,406,214	$ 47,652,022	$ 37,363,887	$ 21,081,073

The Company s proprietary traffic revenues are generated from the Company s portfolio of owned Web sites which are monetized with pay-per-click, cost-per-action listings and graphical ad units that are relevant to the Web sites. When an online user navigates to one of the Company s owned and operated Web sites and clicks on a particular listing or completes the specified action, the Company receives a fee.

The Company s partner network revenues are primarily generated using third-party distribution networks to deliver the advertisers listings. The distribution network includes search engines, shopping engines, directories, destination sites, third-party Internet domains or Web sites and other targeted Web-based content. The Company generates revenue upon delivery of qualified and reported click-throughs or phone calls to the Company s advertisers or to advertising services providers listings. The Company pays a revenue share to the distribution partners to access their online user traffic. Other revenues include the Company s pay-per-phone-call and call-tracking services, bid management services, natural search optimization services and outsourced search marketing platforms.

Table of Contents

(3) Stock-based Compensation Plans

Under SFAS 123R, *Share-Based Payment,* the Company recognizes stock-based compensation expense using the straight-line method for all stock awards issued after January 1, 2006.

The per share fair value of stock options granted during the three and six months ended June 30, 2008 and 2009 was determined on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions:

	Six months ended June 30,		Three months ended June 30,	
	2008	2009	2008	2009
Expected life (in years)	4.0	4.0	4.0	4.0
Risk-free interest rate	2.26%	1.52%	3.13%	2.09%
Expected volatility	54%	65%	52%	65%
Expected dividend yield	0.6%	1.1%	0.6%	1.1%

Stock option activity during the six months ended June 30, 2009 is summarized as follows:

	Shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Balance at December 31, 2008	4,517,154	$ 12.21	6.79	$ 1,065,144
Options granted	363,400	3.54		
Options exercised	(18,000)	1.44		
Options canceled	(348,704)	11.38		
Options forfeited	(555,140)	13.94		
Balance at June 30, 2009	3,958,710	$ 11.29	6.70	$ 142,437

Restricted stock activity during the six months ended June 30, 2009 is summarized as follows:

	Shares	Weighted average grant date fair value
Unvested balance at December 31, 2008	2,348,968	$ 12.55
Granted	953,850	3.63
Vested	(441,688)	11.87
Forfeited	(10,250)	6.57
Unvested balance at June 30, 2009	2,850,880	$ 9.69

The following table summarizes stock-based compensation expense related to all stock-based awards under SFAS 123R during the three and six months ended June 30, 2008 and 2009:

	Six months ended June 30,		Three months ended June 30,	
	2008	2009	2008	2009

Total stock-based compensation included in net income (loss)	$ 5,737,000	$ 4,990,000	$ 2,669,000	$ 2,538,000
Income tax benefit related to stock-based compensation included in net income (loss)	$ 1,520,000	$ 388,000	$ 666,000	$ 660,000

Table of Contents

In August 2009, vesting of approximately 118,000 restricted shares were fully accelerated in connection with separation agreements.

(4) Net Income (Loss) Per Share

We compute net income (loss) per share of Class A and Class B common stock in accordance with SFAS No. 128, *Earnings per Share* (SFAS 128) using the two class method. Under the provisions of SFAS 128, basic net income (loss) per share is computed by dividing net income (loss) applicable to common stockholders by the weighted average number of common shares outstanding during the year. Diluted net income (loss) per share is computed by dividing net income (loss) applicable to common stockholders by the weighted average number of common and dilutive common equivalent shares outstanding during the period. The computation of the diluted net income (loss) per share of Class B common stock assumes the conversion of Class A common stock to Class B common stock, while the diluted net income (loss) per share of Class A common stock does not assume the conversion of those shares.

In accordance with EITF 03-06, *Participating Securities and the Two Class Method under FASB Statement No. 128*, the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B common shares as if the earnings for the year had been distributed. Considering the terms of the Company s charter which provides that, if and when dividends are declared on our common stock in accordance with Delaware General Corporation Law, equivalent dividends shall be and have been paid with respect to the shares of Class A common stock and Class B common stock and that both classes of common stock have identical dividend rights and would share equally in our net assets in the event of liquidation, we have allocated undistributed earnings (losses) on a proportionate basis. Additionally, the Company has paid dividends equally to both classes of common stock since it initiated a quarterly cash dividend in November 2006.

FSP EITF 03-6-1 became effective for the Company on January 1, 2009, under this FSP instruments granted in unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid are participating securities prior to vesting. As such the Company s restricted stock awards are considered participating securities for purposes of calculating earnings per share. Under FSP EITF 03-6-1 a portion of net income (loss) is allocated to these participating securities and therefore is excluded from the calculation of EPS allocated to common stock.

The following table reconciles the Company s reported net income (loss) to net income (loss) applicable to common stockholders used to compute basic net income (loss) per share for the periods ended:

	Six Months June 30, 2008		Six Months June 30, 2009	
	Class A	Class B	Class A	Class B
Numerator:				
Allocation of net loss	$ (265,755)	$ (633,686)	$ (939,974)	$ (1,991,680)
Convertible preferred stock dividends	(8,393)	(20,012)		
Discount on redemption of preferred stock, net	21,566	51,424		
Net loss applicable to common stockholders	$ (252,582)	$ (602,274)	$ (939,974)	$ (1,991,680)
Denominator:				
Weighted average number of shares outstanding used to calculate basic net loss per share	10,968,282	26,153,567	10,899,547	23,094,703
Basic net loss per share applicable to common stockholders	$ (0.02)	$ (0.02)	$ (0.09)	$ (0.09)

	Three Months June 30, 2008		Three Months June 30, 2009	
	Class A	Class B	Class A	Class B
Numerator:				
Allocation of net income (loss)	$ 123,551	$ 288,848	$ (397,271)	$ (820,732)

Convertible preferred stock dividends	(3,951)	(9,236)		
Discount on redemption of preferred stock, net	14,046	32,838		
Net income (loss) applicable to common stockholders	$ 133,646	$ 312,450	$ (397,271)	$ (820,732)
Denominator:				
Weighted average number of shares outstanding used to calculate basic net income (loss) per share	10,959,216	25,621,394	10,869,216	22,454,956
Basic net income (loss) per share applicable to common stockholders	$ 0.01	$ 0.01	$ (0.04)	$ (0.04)

Table of Contents

The following table reconciles the Company s reported net income (loss) to diluted net income (loss) applicable to common stockholders used to compute diluted net income (loss) per share for the periods ended:

	Six Months June 30, 2008		Six Months June 30, 2009	
	Class A	Class B	Class A	Class B
Numerator:				
Allocation of net loss	$ (265,755)	$ (633,686)	$ (939,974)	$ (1,991,680)
Convertible preferred stock dividends	(8,393)	(20,012)		
Reallocation of net loss for Class A shares as a result of conversion of Class A to Class B shares		(274,148)		(939,974)
Net loss applicable to common stockholders	$ (274,148)	$ (927,846)	$ (939,974)	$ (2,931,654)
Denominator:				
Weighted average number of shares outstanding used to calculate basic net loss per share	10,968,282	26,153,567	10,899,547	23,094,703
Weighted average number of shares from assumed conversion of preferred stock redeemed		8,411		
Conversion of Class A to Class B common shares outstanding		10,968,282		10,899,547
Weighted average number of shares outstanding used to calculate diluted net loss per share	10,968,282	37,130,260	10,899,547	33,994,250
Diluted net loss per share applicable to common stockholders	$ (0.02)	$ (0.02)	$ (0.09)	$ (0.09)

	Three Months June 30, 2008		Three Months June 30, 2009	
	Class A	Class B	Class A	Class B
Numerator:				
Allocation of net income (loss)	$ 123,551	$ 288,848	$ (397,271)	$ (820,732)
Convertible preferred stock dividends	(3,951)	(9,236)		
Reallocation of net income (loss) for Class A shares as a result of conversion of Class A to Class B shares		119,600		(397,271)
Net income (loss) applicable to common stockholders	$ 119,600	$ 399,212	$ (397,271)	$ (1,218,003)
Denominator:				
Weighted average number of shares outstanding used to calculate basic net loss per share	10,959,216	25,621,394	10,869,216	22,454,956
Weighted average stock options and warrants and common shares subject to repurchase or cancellation		915,749		
Weighted average number of shares from assumed conversion of preferred stock redeemed		8,327		
Conversion of Class A to Class B common shares outstanding		10,959,216		10,869,216
Weighted average number of shares outstanding used to calculate diluted net loss per share	10,959,216	37,504,686	10,869,216	33,324,172
Diluted net income (loss) per share applicable to common stockholders	$ 0.01	$ 0.01	$ (0.04)	$ (0.04)

10

Table of Contents

For the three and six months ended June 30, 2008, respectively, the net income (loss) applicable to common stockholders used in computing basic net income (loss) per share applicable to common stockholders included the preferred stock dividends and the discount on the redemption of 1,408 and 2,008 shares of the Company s 4.75% convertible exchangeable preferred stock of approximately $47,000 and $73,000. The diluted net loss applicable to common stockholders excluded the discount on the preferred stock redemption and any convertible stock dividends paid during the period on the redeemed shares. The discount on the preferred stock redemption is the difference between the carrying value per share of the redeemed preferred shares and the $206.72 per share (plus commissions) paid by the Company to the preferred stockholders. Total cash consideration paid to the preferred stockholders was approximately $291,000 and $409,000, respectively, for the three and six months ended June 30, 2008. The weighted average number of shares used to calculate the diluted net income (loss) per share includes the weighted average number of shares from the assumed conversion of Class A common stock to Class B common stock.

The computation of diluted net income (loss) per share excludes the following because their effect would be anti-dilutive:

For the three and six months ended June 30, 2008 and 2009, respectively, 53,285 shares and 0 shares issuable upon conversion of the 4.75% convertible preferred stock issued in connection with the February 2005 follow-on public offering.

For the three months ended June 30, 2008, outstanding options to acquire 4,457,195 shares of Class B common stock with a weighted average exercise price of $13.80 per share. For the six months ended June 30, 2008, outstanding options to acquire 5,189,142 shares of Class B common stock with a weighted average exercise price of $12.43 per share. For the three months ended June 30, 2009, outstanding options to acquire 3,728,018 shares of Class B common stock with a weighted average exercise price of $12.33 per share. For the six months ended June 30, 2009, outstanding options to acquire 3,958,710 shares of Class B common stock with a weighted average exercise price of $11.29 per share.

For the three and six months ended June 30, 2008, 17,354 and 2,988,924 shares, respectively, of unvested Class B restricted common shares at June 30, 2008 issued to employees and in connection with acquisitions. For the three and six months ended June 30, 2009, 2,850,880 shares of unvested Class B restricted common shares at June 30, 2009 issued to employees and in connection with acquisitions. Unvested shares were excluded from the denominator of the computation of basic net loss per share.

For the six months ended June 30, 2008, warrants to acquire 6,500 shares of Class B common stock at an exercise price of $8.45 per share.

(5) Concentrations

The Company maintains substantially all of their cash and cash equivalents with one financial institution.

A significant portion of the Company s revenue earned from advertisers is generated through arrangements with distribution partners. The Company may not be successful in renewing any of these agreements, or if they are renewed, they may not be on terms as favorable as current agreements. The Company may not be successful in entering into agreements with new distribution partners or advertisers on commercially acceptable terms. In addition, several of these distribution partners or advertisers may be considered potential competitors.

There were no distribution partners representing more than 10% of consolidated revenue for the three and six months ended June 30, 2008 and 2009.

The advertisers representing more than 10% of consolidated revenue are as follows:

	Six months ended June 30,		Three months ended June 30,	
	2008	**2009**	**2008**	**2009**
Advertiser A	14%	10%	11%	11%
Advertiser B	14%	20%	14%	21%

Advertiser C	10%	*	15%	*
Advertiser D	10%	11%	11%	13%

* Less than 10% of revenue.
Advertiser A is also a distribution partner.

Table of Contents

The outstanding receivable balance for each advertiser representing more than 10% of accounts receivable is as follows:

	At December 31, 2008	At June 30, 2009
Advertiser A	*	13%
Advertiser B	22%	41%
Advertiser C	11%	*
Advertiser D	17%	*

* Less than 10% of accounts receivable.

(6) Segment Reporting and Geographic Information

Operating segments are revenue-producing components of the enterprise for which separate financial information is produced internally for the Company s management. For all periods presented the Company operated as a single segment. The Company operates in a single operating segment principally in domestic markets providing Internet advertiser transaction services to enterprises.

Revenues from advertisers by geographical areas are tracked on the basis of the location of the advertiser. The vast majority of the Company s revenue and accounts receivable are derived from domestic sales to advertisers engaged in various activities involving the Internet.

Revenues by geographic region are as follows (in percentages):

	Six months ended June 30,		Three months ended June 30,	
	2008	2009	2008	2009
United States	97%	99%	97%	98%
Canada	1%	less than 1%	1%	less than 1%
Other countries	2%	less than 1%	2%	1%
	100%	100%	100%	100%

(7) Property and Equipment

Property and equipment consisted of the following:

	December 31, 2008	June 30, 2009
Computer and other related equipment	$ 8,501,740	$ 9,221,267
Purchased and internally developed software	6,168,087	6,232,392
Furniture and fixtures	498,530	502,591
Leasehold improvements	305,073	305,073
	15,473,430	16,261,323
Less: accumulated depreciation and amortization	(9,858,034)	(11,836,226)
Property and equipment, net	$ 5,615,396	$ 4,425,097

The Company has capitalized certain costs of internally developed software for internal use. The estimated useful life of costs capitalized is evaluated for each specific project. Amortization begins in the period in which the software is ready for its intended use.

Depreciation and amortization expense, incurred by the Company, related to property and equipment was approximately $1.1 million and $1.0 million for the three months ended June 30, 2008 and 2009, respectively, and $2.1 million and $2.0 million for the six months ended June 30, 2008 and 2009, respectively.

Table of Contents

(8) Commitments

The Company has commitments for future payments related to office facilities leases, equipment and furniture leases, and other contractual obligations. The Company leases its office facilities under operating lease agreements expiring through 2018. The equipment and furniture leases are financed through capital lease arrangements and are included in property and equipment and the related depreciation is recorded as depreciation expense. The Company also has other contractual obligations expiring over varying time periods through 2012. Other contractual obligations primarily relate to minimum contractual payments due to distribution partners and other service providers.

In June 2009, the Company entered into a lease agreement for office facilities in Seattle, Washington which commences on January 1, 2010 and expires on March 31, 2018. Future minimum payments related to these new facilities are approximately as follows: $700,000 in 2010, $1.2 million in 2011, $1.4 million in 2012, $1.5 million in 2013, $1.6 million in each of 2014 and 2015, and a total of $3.8 million from 2016 to 2018.

Future minimum payments are approximately as follows:

	Equipment and furniture capital leases	Facilities operating leases	Other contractual obligations	Total
Remainder of 2009	$ 20,015	$ 807,817	$ 984,504	$ 1,812,336
2010	7,695	916,904	832,626	1,757,225
2011		1,200,206	230,778	1,430,984
2012		1,350,833	14,514	1,365,347
2013		1,521,260		1,521,260
2014 and after		6,986,504		6,986,504
Total minimum payments	$ 27,710	$ 12,783,524	$ 2,062,422	$ 14,873,656
Less: amounts representing interest	(4,152)			
Present value of lease obligation	23,558			
Less current portion	(22,014)			
Long-term portion	$ 1,544			

Rent expense incurred by the Company was approximately $402,000 and $379,000 for the three months ended June 30, 2008 and 2009, respectively, and $732,000 and $797,000 for the six months ended June 30, 2008 and 2009, respectively.

(9) Credit Agreement

In April 2008, the Company entered into a credit agreement providing for a senior secured $30 million revolving credit facility (Credit Agreement). The Credit Agreement matures and all outstanding borrowings are due in April 2011. Interest on outstanding balances under the Credit Agreement will accrue at LIBOR plus an applicable margin rate, as determined under the agreement and has an unused commitment fee. The Credit Agreement contains certain customary representations and warranties, financial covenants, events of default and is secured by substantially all of the assets of the Company. As of June 30, 2009, the Company had $30 million of availability under the Credit Agreement.

(10) Contingencies and Taxes

(a) Contingencies

The Company is involved in legal and administrative proceedings and claims of various types from time to time. While any litigation contains an element of uncertainty, the Company is not aware of any legal proceedings or claims which are pending that the Company believes, based on current knowledge, will have, individually or taken together, a material adverse effect on the Company s financial condition or results of operations or liquidity.

(b) Taxes

From time to time, various state, federal and other jurisdictional tax authorities undertake reviews of the Company and its tax filings. In evaluating the exposure associated with various tax filing positions, the Company on occasion accrues for uncertain tax positions. The Company believes any adjustments that may ultimately be required as a result of any of these reviews will not be material to the financial statements.

Table of Contents

The Company did not have any material amounts of unrecognized tax benefits as of December 31, 2008 and June 30, 2009. Also, the Company did not have any material amounts of unrecognized tax benefits that, if recognized, would affect the Company s effective tax rate.

The Company files U.S. federal, certain U.S. states, and certain foreign tax returns. Generally, U.S. federal, U.S. state, and foreign tax returns filed for years after 2003 are within the statue of limitations and remain subject to examination.

(11) Intangible Assets from Acquisitions

Intangible assets from acquisitions consisted of the following:

	December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net
Advertiser relationships	$ 11,340,000	$ (10,462,278)	$ 877,722
Distribution partner relationships	$ 3,100,000	$ (3,100,000)	
Non-compete agreements	$ 10,360,000	$ (10,150,083)	$ 209,917
Trademarks/domains	$ 42,570,556	$ (35,342,994)	$ 7,227,562
Acquired technology	$ 16,900,000	$ (15,412,836)	$ 1,487,164
	$ 84,270,556	$ (74,468,191)	$ 9,802,365

	June 30, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net
Advertiser relationships	$ 11,340,000	$ (11,072,278)	$ 267,722
Distribution partner relationships	$ 3,100,000	$ (3,100,000)	
Non-compete agreements	$ 10,360,000	$ (10,309,528)	$ 50,472
Trademarks/domains	$ 42,508,691	$ (37,233,654)	$ 5,275,037
Acquired technology	$ 16,900,000	$ (16,160,454)	$ 739,546
	$ 84,208,691	$ (77,875,914)	$ 6,332,777

Amortizable intangible assets are amortized on a straight-line basis over their useful lives. Amortization expense incurred by the Company for the three months ended June 30, 2008 and 2009, was approximately $3.7 million and $1.3 million, respectively, and for the six months ended June 30, 2008 and 2009 was approximately $7.7 million and $3.5 million, respectively. Based upon the current amount of intangible assets subject to amortization, the estimated amortization expense for the next five years is as follows: $2.0 million for the remainder of 2009, $2.6 million in 2010, $1.2 million in 2011, $478,000 in 2012, and $0 in 2013 and thereafter.

(12) Goodwill

Changes in the carrying amount of goodwill for the six months ended June 30, 2009 are as follows:

Balance as of December 31, 2008	$ 35,475,782
Other	(19,172)
Balance as of June 30, 2009	$ 35,456,610

Goodwill is tested annually for impairment and is tested for impairment more frequently if events and circumstances indicate that the asset is more likely than not impaired. Events and circumstances considered in determining whether the carrying value of goodwill may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; or a significant decline in the Company s stock price and/or market capitalization for a sustained period of time. At various points during the three and six months ended June 30, 2009, the Company s stock price approached or dropped below the then book value per share. If the Company s stock price were to trade below book value per share for an extended period of time and/or the Company continues to experience adverse effects of a continued downward trend in the overall economic environment, changes in the business itself, including changes in projected earnings and cash flows, the Company may have to recognize an impairment of all or some portion of its goodwill.

Table of Contents

(13) Intangible and other assets, net

Intangible and other assets, net consisted of the following:

	December 31, 2008	June 30, 2009
Internet domain names	$ 16,146,804	$ 16,152,529
Less accumulated amortization	(10,649,766)	(11,698,106)
Internet domain names, net	5,497,038	4,454,423
Other assets:		
Restricted cash	20,000	
Registration fees, net	865,361	814,227
Other	283,163	393,092
Total intangibles and other assets, net	$ 6,665,562	$ 5,661,742

The Company capitalizes costs incurred to acquire domain names or URLs, which include the initial registration fees, to other intangible assets which excludes intangible assets acquired through business combinations. The capitalized costs are amortized over the expected useful life of the domain names on a straight-line basis.

The Company also capitalizes costs incurred to renew or extend the term of the domain names or URLs to prepaid expenses and other current assets or registration fees, net. The capitalized costs are amortized over the renewal or extended period on a straight-line basis. The total amount of costs incurred for the three and six months ended June 30, 2009 to renew or extend the term for domain names was $279,000 and $528,000, respectively. The weighted average renewal period for registration fees as of June 30, 2009 was approximately one year.

Amortization expense for internet domain names for the three months ended June 30, 2008 and 2009, was approximately $1.1 million and $528,000, respectively, and for the six months ended June 30, 2008 and 2009, was approximately $2.2 million and $1.1 million, respectively. Based upon the current amount of domains subject to amortization, the estimated expense for the next five years is as follows: $1.0 million for the remainder of 2009, $1.6 million in 2010, $1.1 million in 2011, $433,000 in 2012, and $218,000 in 2013 and thereafter.

Table of Contents

(14) Common Stock

In April 2009, the Company s board of directors declared a quarterly dividend in the amount of $0.02 per share on the Company s Class A common stock and Class B common stock which was paid on May 15, 2009 to the holders of record as of the close of business on May 4, 2009. The aggregate quarterly dividend paid was approximately $721,000.

In November 2006, the Company s board of directors authorized a share repurchase program for the Company to repurchase up to 3 million shares of the Company s Class B common stock as well as the initiation of a quarterly cash dividend for the holders of the Class A and Class B common stock. The Company s board of directors have authorized increases to the share repurchase program for the Company to repurchase up to 9 million shares in the aggregate (less shares previously repurchased under the share repurchase program) of the Company s Class B common stock. Under the share repurchase program, repurchases may take place in the open market and in privately negotiated transactions and at times and in such amounts as the Company deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, capital availability, and other market conditions. This stock repurchase program does not have an expiration date and may be limited or terminated at any time without prior notice.

During the six months ended June 30, 2009, the Company repurchased 1.8 million shares of Class B common stock for approximately $6.6 million at an average stock price of $3.57 per share. The 1.8 million shares have been recorded as treasury stock in the condensed consolidated balance sheet as of June 30, 2009.

During the six months ended June 30, 2009, the Company s board of directors approved the retirement of approximately 4.2 million shares of treasury stock. The excess of purchase price over par value of $21.0 million was recorded as a deduction to additional paid in capital on the condensed consolidated balance sheet.

(15) Subsequent Events

In July 2009, the Company s board of directors declared a regular quarterly dividend in the amount $0.02 per share on the Company s Class A and Class B common stock. The Company will pay these dividends on August 17, 2009 to the holders of record as of the close of business on August 7, 2009. The Company expects to pay approximately $716,000 for these quarterly dividends.

The Company has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through August 7, 2009, the day the financial statements were issued.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We use words such as believes , intends , expects , anticipates , plans , may , will and similar expressions to identify forward-looking statements. All forward-looking statements, including, but not limited to, statements regarding our future operating results, financial position, and business strategy, expectations regarding our growth and the growth of the industry in which we operate, and plans and objectives of management for future operations, are inherently uncertain as they are based on our expectations and assumptions concerning future events. Any or all of our forward-looking statements in this report may turn out to be inaccurate. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. They may be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties, including but not limited to the risks, uncertainties and assumptions described in this report, in Part II, Item 1A. under the caption Risk Factors and elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2008 and those described from time to time in our future reports filed with the SEC. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur as contemplated, and actual results could differ materially from those anticipated or implied by the forward-looking statements. All forward-looking statements in this report are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our results of operation and financial condition. You should read this analysis in conjunction with the attached condensed consolidated financial statements and related notes thereto, and with our audited consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Table of Contents

Overview

We are a local search and advertising company. Our advertising platforms deliver search- and call-based marketing products and services for local and national advertisers. We believe our Local Search Network helps consumers make better, more informed local decisions through its content-rich Web sites that reach millions of consumers each month.

We have a suite of technology-based products and services that facilitate the efficient and cost-effective marketing and selling of goods and services for local and national advertisers who want to sell their products online; and a proprietary, locally-focused Web site network where we help consumers find local information, as well as fulfill our advertiser marketing campaigns:

Local Search Network. We believe that our Local Search Network is a significant source of local information online. It includes more than 200,000 of our owned and operated Web sites focused on helping users find and make informed decisions about where to get local products and services. It features listings from more than 10 million local businesses in the U.S and millions of expert and user-generated reviews on local businesses. The more than 200,000 Web sites in our network include more than 75,000 U.S. ZIP code sites, such as 98102.com and 90210.com, covering ZIP code areas nationwide, as well as tens of thousands of other locally-focused sites such as Yellow.com, OpenList.com and geo-targeted sites such as chicagodoctors.com, seattleautorepairs.com, bostonmortgage.com and others. Traffic to our Local Search Network is primarily monetized with pay-per-click listings that are relevant to the Web sites, as well as other forms of advertising, including call-based ad units, banner placements and sponsorships.

Private-Label Search Marketing Platform. Marchex Connect Enterprise, our private-label local online advertising platform enables resellers of local advertisers, such as Yellow Pages providers and vertical marketing service providers, to sell search marketing and/or call advertising packages through their existing sales channels, which are then fulfilled by us across our distribution network, including leading search engines and our own Local Search Network. By creating a solution for aggregators who have relationships with local advertisers, it makes it easy for local businesses to participate in online advertising. The search marketing services we offer to local advertisers through the Marchex Connect Enterprise include services typically available only to national advertisers, including ad creation, keyword selection, geo-targeting, call tracking, pay-for-call, advertising campaign management, reporting and analytics. Marchex Connect Enterprise has the capacity to support hundreds of thousands of advertiser accounts. In addition, we offer a private-label platform for publishers, separate and distinct from the Marchex Connect Enterprise platform, which enables them to monetize their Web sites with contextual advertising from their own customers or from our advertising relationships. Resellers and publishers generally pay us an agency fee for our platform and services in the form of a percentage of the cost of every click or call delivered to their advertisers.

Pay-Per-Click Advertising. We deliver pay-per-click advertisements to online users in response to their keyword search queries or on pages they visit throughout our distribution network of search engines, shopping engines, certain third party vertical and local Web sites, mobile distribution and our own Local Search Network. In addition to distributing their ads, we offer account management services to help our advertisers optimize their pay-per-click campaigns, including editorial and keyword selection recommendations and report analysis. The pay-per-click advertisements are generally ordered based on the amount our advertisers choose to pay for a placement and the relevancy of their ads to the keyword search. Advertisers pay us when a user clicks on their advertisements in our distribution network and we pay publishers or distribution partners a percentage of the revenue generated by the click-throughs on their site(s). In addition, we generate revenue from cost-per-action events that take place on our distribution network. Cost-per-action revenue occurs when the user is redirected from one of our Web sites or a third-party Web site in our distribution network to an advertiser s Web site and completes a specified action. Additionally, we sell pay-per-click contextual advertising placements on specialized vertical and branded partner Web sites, on a pay-per-click basis. Advertisers can target the placements by category, site- or page-specific basis. We believe our site- and page-specific approach provides publishers with an opportunity to generate revenue from their traffic while protecting their brand. Our approach gives advertisers greater transparency into the source of the traffic and relevancy for their ads and enables them to optimize the return on investment from their advertising campaign. The contextual advertisement placements are generally ordered based on the amount our advertisers choose to pay for a placement and the relevance of the advertisement, based on historic click-through rates. Advertisers pay us when a user clicks on their advertisements in our network and we pay publishers a percentage of the revenue generated by the click-throughs on their site.

Call-Based Advertising Services. We deliver a variety of call-based advertising services to local advertiser resellers, national advertisers and advertising agencies. These services include phone number provisioning, call tracking, call analytics, click-to-call, Web site proxying, pay-for-call and other phone call-based services which enable resellers and advertisers to utilize online advertising to drive calls into their businesses as well as clicks and to use call tracking to measure the effectiveness of both their online and offline advertising campaigns. Resellers and advertisers pay us a flat fee for each phone number provisioned, and a pre-negotiated rate per minute for each call they receive from call-based ads we distribute on our distribution network.

Table of Contents

Feed Management Services. We use our proprietary technology to crawl and extract relevant product content from advertisers databases and Web sites to create automated and highly-targeted product and service listings, which we deliver into a network of search and shopping engines. When an advertiser s Web site is crawled by a search engine (usually every 7 to 14 days), many product and service listings can be excluded or quickly become outdated due to the nature of most advertisers product databases, which contain complex structures and are dynamically updated. Because we have feed relationships with our distribution partners, we are able to deliver our advertiser s product listings directly into our partners distribution and provide updated content in frequent intervals. This is a significant benefit for our advertisers as it maximizes the number of selling opportunities and for our distribution partners as it increases the accuracy and relevance of their search results. Advertisers generally pay us a fixed price for each click they receive on an advertisement or listing included in the feed.

Local Campaign Management Services. We offer local advertising campaign management services. Our campaign management services enable our advertisers to consolidate the purchasing, management, optimization and reporting from their local, search and vertical-advertising campaigns across a large number of search engines, local Web sites and pay-per-click networks into one centralized place. Through our partnerships with leading search engines, directories, vertical Web sites and mobile applications, we are able to place and manage our clients paid listings directly within their account management systems and provide detailed reporting and conversion tracking that enables advertisers to track the effectiveness of their online advertising campaigns across the different channels. With our campaign management services, we may suggest additional channels, search engines or pay-per-click networks as well as editorial guidance that may broaden the reach and improve the effectiveness of our advertisers campaigns. Advertisers pay us a pre-negotiated rate for each click they receive on their advertisement placed or managed as part of our campaign management services.

We were incorporated in Delaware on January 17, 2003. Acquisition initiatives have played an important part in our corporate history to date. We have completed the following acquisitions since our inception:

On February 28, 2003, we acquired eFamily together with its direct wholly-owned subsidiary, formerly known as Enhance Interactive. eFamily was incorporated in Utah on November 29, 1999 under the name FocusFilter.com, Inc. Enhance Interactive was recently renamed Marchex Adhere PPC.

On October 24, 2003, we acquired TrafficLeader which was incorporated in Oregon on January 24, 2000 under the name Sitewise Marketing, Inc. TrafficLeader was recently renamed Marchex Connect NA.

On July 27, 2004, we acquired goClick which was incorporated in Connecticut on October 25, 2000.

On February 14, 2005, we acquired certain assets of Name Development which was incorporated in the British Virgin Islands in July 2000.

On April 26, 2005, we acquired certain assets of Pike Street Industries, which was incorporated in Washington on March 6, 2002.

On July 27, 2005, we acquired IndustryBrains, which was incorporated in New York on January 31, 2002 and which was recently renamed Marchex Adhere SSC.

On May 1, 2006, we acquired certain assets of AreaConnect, which was formed in Delaware on June 5, 2002.

On May 26, 2006, we acquired certain assets of Open List, which was incorporated in Delaware on November 18, 2003.

On September 19, 2007, we acquired VoiceStar, which was incorporated in Pennsylvania on March 21, 1999 under the name TL Solutions, Inc. VoiceStar was recently renamed Marchex Voice Services.

We currently have offices in Seattle, Washington; Eugene, Oregon; Las Vegas, Nevada; Philadelphia, Pennsylvania; New York, New York; and Highlands Ranch, Colorado.

Consolidated Statements of Operations

The assets, liabilities and operations of our acquisitions are included in our consolidated financial statements as of and from the date of the respective acquisitions.

All significant inter-company transactions and balances within Marchex have been eliminated in consolidation. Our purchase accounting resulted in all assets and liabilities from our acquisitions being recorded at their estimated fair values on the respective acquisition dates. All goodwill, intangible assets and liabilities resulting from the acquisitions have been recorded in our financial statements.

Table of Contents

Presentation of Financial Reporting Periods

The comparative periods presented are for the three and six months ended June 30, 2008 and 2009.

Revenue

We currently generate revenue through our suite of services, including our local search network, private-label search marketing platform, pay-per-click advertising and related services, call-based advertising, feed management and local campaign management.

Our primary sources of revenue are the performance-based advertising services, which include pay-per-click services, pay-per-phone-call services, cost-per-action services and feed management services. These primary sources amounted to greater than 77% of our revenues in all periods presented. Our secondary sources of revenue are our bid campaign management services, natural search optimization services and outsourced search marketing platforms. These secondary sources amounted to less than 23% of our revenues in all periods presented. We have no barter transactions.

We recognize revenue upon the completion of our performance obligation, provided that: (1) evidence of an arrangement exists; (2) the arrangement fee is fixed and determinable; and (3) collection is reasonably assured.

In certain cases, we record revenue based on available and reported preliminary information from third parties. Collection on the related receivables may vary from reported information based upon third-party refinement of the estimated and reported amounts owing that occurs subsequent to period ends.

Performance-Based Advertising Services

In providing pay-per-click and pay-for-call advertising services, we generate revenue upon our delivery of qualified and reported click-throughs or phone calls to our advertisers or advertising service providers listings. These advertisers and advertising service providers pay us a designated transaction fee for each click-through or phone call, which occurs when an online user clicks or makes a phone call on any of their advertisement listings after it has been placed by us or by our distribution partners. Each click-through on an advertisement listing represents a completed transaction. The advertisement listings are displayed within our distribution network, which includes search engines, directories, destination sites, third-party Internet domains or Web sites, our portfolio of owned Web sites and other targeted Web-based content. We also generate revenue from cost-per-action services, which occurs when the online user is redirected from one of our Web sites or a third-party Web site in our distribution network to a advertiser Web site and completes the specified action, such as when a phone number is provisioned or a call is placed.

In providing pay-per-click contextual based advertising, advertisers purchase keywords or keyword strings, based on an amount they choose for a targeted placement on vertically-focused Web sites or specific pages of a Web site that are specific to their products or services and their marketing objectives. The contextual results distributed by our services are prioritized for users by the amount the advertiser is willing to pay each time a user clicks on the advertisement and the relevance of the advertisement, which is dictated by historical click-through rates. Advertisers pay us when a click-through occurs on their advertisement.

In providing feed management services, advertisers pay for their Web pages and product databases to be crawled, or searched, and included in search engine, directory and product shopping engine results within our distribution network. Generally, the feed management listings are presented in a different section of the Web page than the pay-per-click listings. For this service, revenue is generated when an online user clicks on a feed management listing from search engine, directory or product shopping engine results. Each click-through on an advertisement listing represents a completed transaction for which the advertiser pays on a per-click basis. The placement of a feed management result is largely determined by its relevancy, as determined by the distribution partner.

Search Marketing Services

Advertisers pay us additional fees for services such as local campaign management and natural search engine optimization. Advertisers generally pay us on a click-through basis, although in certain cases we receive a fixed fee for delivery of these services. In some cases we also deliver banner campaigns for select advertisers. We may also charge initial set-up, account, service or inclusion fees as part of our services.

Banner advertising revenue may be based on a fixed fee per click and is generated and recognized on click-through activity. In other cases, banner payment terms are volume-based with revenue generated and recognized when impressions are delivered.

Non-refundable account set-up fees are paid by advertisers and are recognized ratably over the longer of the term of the contract or the average expected advertiser relationship period, which generally ranges from twelve months to more than two years. Other account and service fees are recognized in the month or period the account fee or services relate to.

Other inclusion fees are generally associated with monthly or annual subscription-based services where an advertiser pays a fixed amount to be included in our index of listings or our distribution partners index of listings. Revenues from these subscription arrangements are recognized ratably over the service period.

Outsourced Search Marketing Platforms

We generate revenue from super-aggregator partners and publishers utilizing our Web-based technologies. We are paid a management or agency fee based on the total amount of the purchase made by the advertiser. The partners or publishers engage the advertisers and are the primary obligor, and we, in certain instances, are only financially liable to the publishers in our capacity as a collection agency for the amount collected from the advertisers. We recognize revenue for these fees under the net revenue recognition method.

Industry and Market Factors

We enter into agreements with various distribution partners to provide distribution for the URL strings and advertisement listings of our advertisers. We generally pay distribution partners based on a percentage of revenue or a fixed amount per click-through on these listings. The level of click-throughs contributed by our distribution partners has varied, and we expect it will continue to vary, from quarter-to-quarter and year-to-year, sometimes significantly. If we do not add new distribution partners, renew our current distribution partner agreements or replace traffic lost from terminated distribution agreements with other sources or if our distribution partners search businesses do not grow or are adversely affected, our revenue and results of operations may be materially and adversely affected. Our ability to grow will be impacted by our ability to increase our distribution, which impacts the number of Internet users who have access to our advertisers listings and the rate at which our advertisers are able to convert clicks from these Internet users into completed transactions, such as a purchase or sign up. Our ability to grow also depends on our ability to continue to increase the number of advertisers who use our services and the amount these advertisers spend on our services.

We anticipate that these variables will fluctuate in the future, affecting our growth rate and our financial results. In particular, it is difficult to project the number of click-throughs we will deliver to our advertisers and how much advertisers will spend with us, and it is even more difficult to anticipate the average revenue per click-through. It is also difficult to anticipate the impact of worldwide economic conditions on advertising budgets, including due to the economic uncertainty resulting from recent disruptions in global financial markets.

In addition, we believe we will experience seasonality. Our quarterly results have fluctuated in the past and may fluctuate in the future due to seasonal fluctuations in levels of Internet usage and seasonal purchasing cycles of many advertisers. It is generally understood that during the spring and summer months, Internet usage is lower than during other times of the year, especially in comparison to the fourth quarter of the calendar year. The extent to which usage may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage during these periods may adversely affect our growth rate and results. Additionally, the current deterioration in the economic conditions has generally resulted in advertisers and resellers reducing advertising and marketing services budgets, which we expect will impact our quarterly results of operations in addition to the typical seasonality seen in our industry.

Service Costs

Our service costs represent the cost of providing our performance-based advertising services and our search marketing services. The service costs that we have incurred in the periods presented primarily include:

- user acquisition costs;
- amortization of intangible assets;
- license and content fees;
- credit card processing fees;

network operations;

telecommunication costs, including provisioning of telephone numbers;

serving our search results;

maintaining our Web sites;

domain name registration renewal fees;

network fees;

fees paid to outside service providers;

delivering customer service;

- depreciation of our Web sites, network equipment and internally developed software;
- colocation service charges of our Web site equipment;
- bandwidth and software license fees;
- payroll and related expenses of related personnel; and
- stock-based compensation of related personnel.

User Acquisition Costs

For the periods presented the largest component of our service costs consists of user acquisition costs that relate primarily to payments made to distribution partners for access to their online user traffic. We enter into agreements of varying durations with distribution partners that integrate our services into their Web sites and indexes. The primary payment structure of the distribution partner agreements is a variable payment based on a specified percentage of revenue.

These variable payments are often subject to minimum payment amounts per click-through. Other payment structures that we may use to a lesser degree include:

- fixed payments, based on a guaranteed minimum amount of usage delivered;
- variable payments based on a specified metric, such as number of paid click-throughs; and
- a combination arrangement with both fixed and variable amounts that may be paid in advance.

We expense user acquisition costs based on whether the agreement provides for fixed or variable payments. Agreements with fixed payments with minimum guaranteed amounts of usage are expensed as the greater of the pro-rata amount over the term of arrangement or the actual usage delivered to date based on the contractual revenue share. Agreements with variable payments based on a percentage of revenue, number of paid click-throughs or other metrics are expensed as incurred based on the volume of the underlying activity or revenue multiplied by the agreed-upon price or rate.

Sales and Marketing

Sales and marketing expenses consist primarily of:

- payroll and related expenses for personnel engaged in marketing and sales functions;
- advertising and promotional expenditures including online and outside marketing activities;
- cost of systems used to sell to and serve advertisers; and

stock-based compensation of related personnel.

Product Development

Product development costs consist primarily of expenses incurred in the research and development, creation and enhancement of our Web sites and services.

Our research and development expenses include:

payroll and related expenses for personnel;

costs of computer hardware and software;

costs incurred in developing features and functionality of the services we offer; and

stock-based compensation of related personnel.

For the periods presented, substantially all of our product development expenses are research and development.

Product development costs are expensed as incurred or capitalized into property and equipment in accordance with the American Institute of Certified Public Accountants Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. This statement requires that costs incurred in the preliminary project and post-implementation stages of an internal use software project be expensed as incurred and that certain costs incurred in the application development stage of a project be capitalized.

Table of Contents

General and Administrative

General and administrative expenses consist primarily of:

- payroll and related expenses for executive and administrative personnel;
- professional services, including accounting, legal and insurance;
- bad debt provisions;
- facilities costs;
- other general corporate expenses; and
- stock-based compensation of related personnel.

Stock-Based Compensation

We follow Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment* (SFAS 123R) and account for stock-based compensation under the fair value method. As a result, stock-based compensation consists of the following:

- all share-based compensation arrangements granted after January 1, 2006 (adoption date of SFAS 123R) and for any such arrangements that are modified, cancelled, or repurchased after that date; and
- the portion of previous share-based awards for which the requisite service was not rendered as of January 1, 2006.

Stock-based compensation expense has been included in the same lines as compensation paid to the same employees in the consolidated statement of operations in accordance with SEC Accounting Bulletin No. 107, *Share-based Payment*.

Amortization of Intangible Assets from Acquisitions

Amortization of intangible assets excluding goodwill relates to intangible assets acquired in connection with our business acquisitions.

The intangible assets have been identified as:

- non-competition agreements;
- trade and Internet domain names;
- distributor partner relationships;

advertising relationships;

patents; and

acquired technology.

These assets are amortized over useful lives ranging from 12 to 84 months.

Provision for Income Taxes

For income tax purposes, we utilize the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in results of operations in the period that includes the enactment date.

Each reporting period we must assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent that realization is not more likely than not, a valuation allowance must be established. The establishment of a valuation allowance and increases to such an allowance result in either increases to income tax expense or reduction of income tax benefit in the statement of operations. Although realization is not assured, we believe it is more likely than not, based on operating performance and projections of future taxable income, that our net deferred tax assets, excluding certain state net operating loss carryforwards, will be realized. In determining that it is more likely than not that we will realize the deferred tax assets, factors considered include: historical taxable income, historical trends related to advertiser usage rates and projected revenues and expenses, macroeconomic conditions and issues facing our industry, existing contracts, our ability to project future results and any appreciation of our other assets. Additionally, the majority of our deferred tax assets are from goodwill and intangible assets recorded in connection with various acquisitions that are tax-deductible over 15 year periods. Based on projections of future taxable income the Company expects to be able to recover these assets. The amount of the net deferred tax assets considered realizable, however, could be reduced in the near term if our projections of future taxable income are reduced or if we do not perform at the levels we are projecting. This could result in increases to the valuation allowance for deferred tax assets and a corresponding increase to income tax expense of up to the entire net amount of deferred tax assets.

Table of Contents

From time to time, various state, federal, and other jurisdictional tax authorities undertake reviews of us and our filings. We believe any adjustments that may ultimately be required as a result of any of these reviews will not be material to the financial statements.

As of June 30, 2009, we have net deferred tax assets of $56.3 million, relating to the impairment of goodwill, amortization of intangibles assets, net operating loss carryforwards and certain other temporary differences. As of June 30, 2009, based upon both positive and negative evidence available, we have determined it is not more likely than not that certain deferred tax assets primarily relating to net operating loss carryforwards in state and foreign jurisdictions will be realizable and accordingly, have recorded a valuation allowance of $1.7 million against these deferred tax assets. Should we determine in the future that we will be able to realize these deferred tax assets, or not be able to realize all or part of our remaining net deferred tax assets recorded as of June 30, 2009, an adjustment to the net deferred tax assets would impact our statement of operations or stockholders equity in the period such determination was made.

As of June 30, 2009, we had federal net operating loss (NOL) carryforwards of $1.7 million, which will begin to expire in 2019. The Tax Reform Act of 1986 limits the use of NOL and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. We believe that such a change has occurred, and that the utilization of the approximately $1.7 million of NOL carryforwards is limited such that substantially all of these federal NOL carryforwards will never be utilized.

As of June 30, 2009, we had certain tax effected state NOL carryforwards of approximately $4.0 million. We do not have a history of taxable income in the relevant state and the state NOL carryforwards will more likely than not expire unutilized. Therefore, we have recorded a 100% valuation allowance on the state NOL carryforwards as of June 30, 2009.

Results of Operations

The following table presents certain financial data, derived from our unaudited consolidated statements of operations, as a percentage of total revenue for the periods indicated. The operating results for the three and six months ended June 30, 2008 and 2009 and are not necessarily indicative of the results that may be expected for the full year or any future period.

	Six Months Ended June 30,		Three Months Ended June 30,	
	2008	2009	2008	2009
Revenue	100.0%	100.0%	100.0%	100.0%
Expenses:				
Service costs	48.8%	48.0%	46.6%	52.3%
Sales and marketing	20.0%	23.7%	21.1%	17.5%
Product development	11.3%	16.0%	11.4%	16.3%
General and administrative	13.5%	16.9%	13.6%	18.9%
Amortization of intangible assets from acquisitions	10.4%	7.3%	9.8%	6.3%
Total operating expenses	104.0%	111.9%	102.5%	111.3%
Gain on sales and disposals of intangible assets, net	2.9%	3.7%	5.4%	4.1%
Income (loss) from operations	(1.1)%	(8.2)%	2.9%	(7.2)%
Other income (expense):				
Interest income	0.6%	0.1%	0.4%	0.1%
Interest expense	0.0%	(0.1)%	(0.1)%	(0.1)%
Other	0.0%	0.0%	0.0%	0.0%
Total other income, net	0.6%	0.0%	0.3%	0.0%
Income (loss) before provision for income taxes	(0.5)%	(8.2)%	3.2%	(7.2)%
Income tax benefit (expense)	0.5%	(2.1)%	2.0%	(1.9)%
Net income (loss)	(1.0)%	(6.1)%	1.2%	(5.3)%

Convertible preferred stock dividend and discount on preferred stock redemption, net	(0.1)%	0.0%	(0.1)%	0.0%
Net income (loss) applicable to common stockholders	(0.9)%	(6.1)%	1.3%	(5.3)%

23

Table of Contents

Comparison of the Three months ended June 30, 2008 to the Three months ended June 30, 2009 and of the Six months ended June 30, 2008 to the Six months ended June 30, 2009

Revenue

The following table presents our revenues, by revenue source, for the periods presented:

	Six months ended June 30,		Three months ended June 30,	
	2008	2009	2008	2009
Proprietary Traffic Sources	$ 31,266,435	$ 18,280,765	$ 16,599,077	$ 6,510,360
Partner and Other Revenue Sources	43,139,779	29,371,257	20,764,810	14,570,713
Total Revenue	$ 74,406,214	$ 47,652,022	$ 37,363,887	$ 21,081,073

Our proprietary traffic revenues are generated from our portfolio of Web sites which are monetized with pay-per-click and cost-per-action listings and graphical ad units that are relevant to the Web sites. When an online user navigates to one of our owned and operated Web sites and clicks on a particular listing or completes the specified action, we receive a fee. Our partner network revenues are primarily generated using third-party distribution networks to deliver the advertisers listings. The distribution network includes search engines, shopping engines, directories, destination sites, third-party Internet domains or Web sites, and other targeted Web-based content. We generate revenue upon delivery of qualified and reported click-throughs or phone calls to our advertisers or to advertising services providers listings. We pay a revenue share to the distribution partners to access their online user traffic. Other revenues include our call-tracking services, bid management services, natural search optimization services and outsourced search marketing platforms.

Revenue decreased 44%, from $37.4 million for the three months ended June 30, 2008 to $21.1 million in the same period in 2009. The decrease in partner network and other revenues was primarily attributable to a more than $4.5 million decrease in pay-per-click revenues due in part to more than 3,000 fewer advertisers spending on our partner network and lower advertiser spend budgets. Additionally there was a $2.1 million decrease attributable to less traffic volume from domain name owners who are distribution partners utilizing our third-party content platform including a net decline of more than 5 distribution partners comparing the three months ended June 30, 2009 to the same period in 2008. These decreases were partially offset by our adding more than $600,000 in revenue from our call-based advertising platforms during this period which were primarily attributable to an increase in the revenues we generated from advertiser resellers related to our call-based advertising services. Proprietary traffic revenue decreased primarily due to $1.9 million lower revenues from our arrangement with Yahoo! whereby we receive payment upon click-throughs on pay-per-click listings presented on our Web sites. This decrease was principally due to fewer click-throughs on pay-per-click listings from Yahoo! The remainder of such decrease was largely due to lower revenues for cost-per-actions from resellers such as AT&T, R.H. Donnelley Corporation, Idearc Media Corp., Yellowbook USA Inc., WhitePages, Inc., Vantage Media, LLC and Intelius, Inc., particularly related to our local search and directory Web sites.

Revenue decreased 36%, from $74.4 million for the six months ended June 30, 2008 to $47.7 million in the same period in 2009. The decrease in partner network and other revenues was primarily attributable to a more than $10 million decrease in pay-per-click revenues due in part to more than 8,000 fewer advertisers spending on our partner network and lower advertiser spend budgets. Additionally there was a $4.1 million decrease attributable to less traffic volume from domain name owners who are distribution partners utilizing our third-party content platform including a net decline of more than 5 distribution partners comparing the six months ended June 30, 2009 to the same period in 2008. These decreases were partially offset by our adding more than $1 million in revenue from our call-based advertising platforms which were primarily attributable to an increase in the revenues we generated from advertiser resellers related to our call-based advertising services.

Proprietary traffic revenue decreased primarily due to $5.8 million lower revenues from our arrangement with Yahoo! whereby we receive payment upon click-throughs on pay-per-click listings presented on our Web sites. This decrease was principally due to fewer click-throughs on pay-per-click listings from Yahoo! The remainder of such decrease was largely due to lower revenues for cost-per-actions from resellers such as AT&T, R.H. Donnelley Corporation, Idearc Media Corp., Yellowbook USA Inc., WhitePages, Inc., Vantage Media, LLC and Intelius, Inc., particularly related to our local search and directory Web sites. The six months ended June 30, 2009 were also impacted by $1.6 million of revenue we did not recognize for services, in part because of limited collectability assurance from certain advertiser resellers, including due to the recent bankruptcy filings of Idearc Media Corp. and R.H. Donnelley Corporation. We expect to recognize these amounts, if any, upon cash collection.

Under our arrangement with AT&T, we generate revenues from our local online advertising platform to sell search marketing packages and or call advertising packages through their existing sales channels, which are then fulfilled by us across our distribution network. We are paid accounts fees and also agency fees for our services in the form of a percentage of the cost of every click or call delivered to their advertisers. AT&T and Yahoo! for the six months ended June 30, 2008 both accounted for 14% of our total revenues compared to 20% and 10%, respectively, for the six months ended June 30, 2009. As noted above, revenues from Idearc and Intelius are primarily related to our local search and directory Web sites and revenues decreased for both from $7.6 million for the six months ended June 30, 2008, to $5.2 million and $2.4 million for the six months ended June 30, 2009, respectively. We expect revenues to decrease from domain name owners who are distribution partners utilizing our third-party content platform as we have reduced the development and sales resources focused on those services. In the near term, given the current deterioration in economic conditions, we expect advertisers and resellers to generally reduce their advertising and marketing services budgets. Certain of our large advertisers and resellers are experiencing financial challenges, including issues stemming from the current deterioration in economic conditions and we expect our revenues from such advertisers and resellers to trend lower in the near term as these advertisers may spend less, particularly on our proprietary traffic sources. Our ability to maintain and grow our revenues will depend in part on maintaining and increasing the number of click-throughs and calls performed by users of our service through our distribution partners and proprietary traffic sources and maintaining and increasing the number and volume of transactions and favorable variable payment terms with advertisers and advertising services providers, which we believe is dependent in part on marketing our Web sites and delivering high quality traffic that ultimately results in purchases or conversions for our advertisers and advertising services providers. We may increase our direct monetization of our proprietary traffic sources which may not be at the same rate levels as other advertising providers and could adversely affect our revenues and results of operations. If we do not add new distribution partners, renew our current distribution partner agreements or replace traffic lost from terminated distribution agreements with other sources or if our distribution partners search businesses do not grow or are adversely affected, our revenue and results of operations may be materially and adversely affected. If revenue grows and the volume of transactions and traffic increases, we will need to expand our network infrastructure. Inefficiencies in our network infrastructure to scale and adapt to higher traffic volumes could materially and adversely affect our revenue and results of operations.

We anticipate that these variables will fluctuate in the future, affecting our growth rate and our financial results. In particular, it is difficult to project the number of click-throughs we will deliver to our advertisers and how much advertisers will spend with us, and it is even more difficult to anticipate the average revenue per click-through. It is also difficult to anticipate the impact of worldwide economic conditions on advertising budgets, including due to the economic uncertainty resulting from recent disruptions in global financial markets, although in the near term, we believe advertisers may limit their total advertising budgets.

Expenses

Expenses were as follows:

	Six months ended June 30,				Three months ended June 30,			
	2008	**% of revenue**	**2009**	**% of revenue**	**2008**	**% of revenue**	**2009**	**% of revenue**
Service costs	$ 36,301,616	49%	$ 22,886,210	48%	$ 17,414,301	47%	$ 11,024,516	52%
Sales and marketing	14,867,783	20%	11,271,267	24%	7,896,035	21%	3,682,352	17%
Product development	8,439,573	11%	7,600,517	16%	4,252,469	11%	3,446,317	16%
General and administrative	10,033,984	14%	8,057,735	17%	5,074,875	14%	3,987,195	19%
Amortization of intangible assets from acquisitions	7,713,637	10%	3,469,551	7%	3,661,275	10%	1,334,585	6%

Stock-based compensation expense was included in the following operating expense categories as follows:

	Six months ended June 30,		Three months ended June 30,	
	2008	**2009**	**2008**	**2009**
Service costs	$ 225,658	$ 197,056	$ 86,087	$ 102,546
Sales and marketing	856,714	982,509	326,004	524,655
Product development	806,998	298,432	396,289	115,027
General and administrative	3,847,338	3,512,111	1,860,856	1,795,853

Total stock-based compensation	$ 5,736,708	$ 4,990,108	$ 2,669,236	$ 2,538,081

See Note 3 Stock-based Compensation Plans of the condensed consolidated statements as well as our Critical Accounting Policies for additional information about stock-based compensation.

Service Costs. Service costs decreased 37% from $17.4 million in the three months ended June 30, 2008 to $11.0 million in the same period in 2009. The decrease was primarily attributable to a decrease in distribution partner payments of $5.3 million and a decrease in royalty costs, Internet domain amortization, personnel costs, and credit card processing fees of $1.2 million partially offset by increases in stock compensation, fees paid to outside service providers, depreciation and amortization, and other costs of $173,000.

Service costs represented 47% of revenue in the three months ended June 30, 2008 as compared to 52% in 2009. The 2009 increase as a percentage of revenue in service costs as compared to 2008 was primarily a result of an increase in the proportion of revenue attributable to our partner and other revenue sources for which there are related distribution partner payments as compared to our proprietary traffic revenue. Payments to feed management and pay-per-click distribution partners account for higher user acquisition costs as a percentage of revenue relative to our overall service cost percentage.

Service costs decreased 37% from $36.3 million in the six months ended June 30, 2008 to $22.9 million in the same period in 2009. The decrease was primarily attributable to a decrease in distribution partner payments of $11.5 million and a decrease in royalty costs, Internet domain amortization, personnel costs, stock compensation and credit card processing fees of $2.6 million partially offset by increases in fees paid to outside service providers, depreciation and amortization, and other costs of $667,000.

Service costs represented 49% of revenue in the six months ended June 30, 2008 as compared to 48% in 2009. The 2009 decrease as a percentage of revenue in service costs as compared to the same period in 2008 was primarily due to lower distribution partner payments. We expect that user acquisition costs and revenue shares to distribution partners are likely to increase prospectively given the competitive landscape for distribution partners. To the extent that payments to feed management and pay-per-click services distribution partners make up a larger percentage of future operations, or the addition or renewal of existing distribution partner agreements are on terms less favorable to us, we expect that service costs will increase as a percentage of revenue. To the extent of revenue declines in these areas, we expect revenue shares to distribution partners to decrease in absolute dollars. Our proprietary traffic sources have a lower service cost as a percentage of revenue relative to our overall service cost percentage. Our proprietary traffic sources have no corresponding distribution partner payments. To the extent our proprietary traffic sources make up a larger percentage of our future operations, we expect that service costs will decrease as a percentage of revenue. We also expect that in the longer term service costs will increase in absolute dollars as a result costs associated with the expansion of our operations and network infrastructure as we scale and adapt to increases in the volume of transactions and traffic and invest in our platforms.

Sales and Marketing. Sales and marketing expenses decreased 53%, from $7.9 million for the three months ended June 30, 2008 to $3.7 million in the same period in 2009. As a percentage of revenue, sales and marketing expenses were 21% and 17% for the three months ended June 30, 2008 and 2009, respectively. The net decrease in dollars was related primarily to a decrease in online and outside marketing activities. Although online and outside marketing activities have been lower, we expect some volatility in sales and marketing expenses in the near term based on the timing of marketing initiatives and therefore such expenses may be higher in absolute dollars. We expect that sales and marketing expenses will increase in connection with any revenue increase to the extent that we also increase our marketing activities and correspondingly could increase as a percentage of revenue. We also expect fluctuations in marketing expenditures as we redirect our online marketing efforts towards more of our updated Web sites and direct monetization of our proprietary traffic sources but expect expenditures related to these efforts to increase in absolute dollars in the long term.

Sales and marketing expenses decreased 24%, from $14.9 million for the six months ended June 30, 2008 to $11.3 million in the same period in 2009. As a percentage of revenue, sales and marketing expenses were 20% and 24% for the six months ended June 30, 2008 and 2009, respectively. The 2009 increase as a percentage of revenue in sales and marketing as compared to 2008 was primarily a result of an increase in the proportion of variable personnel costs relative to revenue.

Product Development. Product development expenses decreased 19%, from $4.3 million for the three months ended June 30, 2008 to $3.4 million in the same period in 2009. The decrease in dollars was primarily due to a decrease in fees paid to outside service providers, stock compensation and personnel costs of $809,000. As a percentage of revenue, product development expenses were 11% and 16% for the three months ended June 30, 2008 and 2009, respectively. The 2009 increase as a percentage of revenue in product development expense as compared to 2008 was primarily a result of an increase in the proportion of personnel costs relative to revenue. In the near term, we do not expect significant changes to our product development expenditures. In the longer term, we expect that product development expenses will increase in absolute dollars as we increase the number of personnel and consultants to enhance our service offerings and as a result of additional stock-based compensation expense.

Table of Contents

Product development expenses decreased 10%, from $8.4 million in the six months ended June 30, 2008 to $7.6 million in the same period in 2009. As a percentage of revenue, product development expenses were 11% and 16% for the six months ended June 30, 2008 and 2009, respectively. The decrease in dollars was primarily due to a decrease in fees paid to outside service providers and stock compensation of $1.2 million, offset by an increase in personnel costs, depreciation and facility costs of $430,000.

General and Administrative. General and administrative expenses decreased 21%, from $5.1 million in the three months ended June 30, 2008 to $4.0 million in the same period in 2009. The decrease in dollars was primarily due to a decrease in personnel costs, fees paid to outside service providers, facility costs, stock compensation, bad debt and other costs of $1.0 million. As a percentage of revenue, general and administrative expenses was 14% and 19% for the three months ended June 30, 2008 and 2009, respectively. We do not expect significant changes to our general and administrative expenses in the near term. We expect that our general and administrative expenses will increase in the longer term to the extent that we expand our operations and incur additional costs in connection with being a public company, including expenses related to professional fees and insurance.

General and administrative expenses decreased 20%, from $10.0 million in the six months ended June 30, 2008 to $8.1 million in the same period in 2009. The decrease in dollars was primarily due to a decrease in personnel costs, fees paid to outside service providers, facility costs, stock compensation, bad debt and other costs of $1.9 million. As a percentage of revenue, general and administrative expenses were 14% and 17% for the six months ended June 30, 2008 and 2009, respectively.

Amortization of Intangible Assets from Acquisitions. Intangible amortization expense decreased 64%, from $3.7 million in the three months ended June 30, 2008 to $1.3 million in the same period in 2009. The decrease was associated with certain intangible assets from acquisitions being fully amortized in 2008 and 2009. During the three months ended June 30, 2009, the components of amortization of intangibles were service costs of $1.3 million and general and administrative of $11,000.

Intangible amortization expense decreased 55%, from $7.7 million in the six months ended June 30, 2008 to $3.5 million in the same period in 2009. The decrease was associated with certain intangible assets from acquisitions being fully amortized in 2008 and 2009. During the six months ended June 30, 2009, the components of amortization of intangibles were service costs of $3.4 million and general and administrative of $44,000.

Our purchase accounting resulted in all assets and liabilities from our acquisitions being recorded at their estimated fair values on their respective acquisition dates. All goodwill, identifiable intangible assets and liabilities resulting from our acquisitions have been recorded in our financial statements. The identified intangibles amounted to $84.2 million and are being amortized over a range of useful lives of 12 to 84 months. We may acquire identifiable intangible assets as part of future acquisitions, and if so, we expect that our intangible amortization will increase in absolute dollars. Events and circumstances considered in determining whether the carrying value of amortizable intangible assets and goodwill may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; or a significant decline in the Company s stock price and/or market capitalization for a sustained period of time. At various points during the six months ended June 30, 2009, our stock price approached or dropped below the then book value per share. If the our stock price were to trade below book value per share for an extended period of time and/or we experienced continued downward trends in the overall economic environment, changes in the business itself, including changes in projected earnings and cash flows, we may need to recognize an impairment of all or some portion of our goodwill and other intangible assets.

Gain on sales and disposals of intangible assets, net. The gain on sales and disposals of intangible assets, net was $2.0 million and $2.2 million for the three and six months ended June 30, 2008, respectively, as compared to $855,000 and $1.8 million for the three and six months ended June 30, 2009, respectively, and was primarily attributable to the sales and disposals of Internet domain names and other intangible assets.

Other Income, net. Other income, net was $133,000 in the three months ended June 30, 2008 compared to ($19,000) in the same period in 2009. Other income, net was $417,000 in the six months ended June 30, 2008 compared to ($4,000) in the same period in 2009. The decrease in other income, net during the three and six months ended June 30, 2009 was primarily due to lower interest income as a result of the lower average cash balances, resulting from the Class B common stock repurchases, and lower interest rates.

Income Taxes. The income tax expense in the three months ended June 30, 2008 was $733,000 as compared to an income tax benefit of $390,000 in the same period in 2009. In the six months ended June 30, 2008, income tax expense was $393,000 compared to a $1.1 million income tax benefit in the same period in 2009. In the three and six months ended June 30, 2009, the effective tax rate of (25%) and (26%), respectively, differed from the expected effective tax rate of 35% due to state income taxes, non-deductible stock-based compensation related to restricted stock and incentive stock options recorded under the fair-value method as prescribed by SFAS 123R and other amounts. The effective tax rate of 61% and (104%) in the three and six months ended June 30, 2008 differed from the expected tax rate of 35% due to state income taxes, non-deductible stock-based compensation related to restricted stock and incentive stock options recorded under the fair-value method as prescribed by SFAS 123R and other amounts.

Table of Contents

During the three months ended June 30, 2008 and 2009, as a result of tax deductions from stock option exercises and restricted stock awards, we recognized excess (shortfall) tax benefits of approximately $81,000 and ($50,000), respectively, which were recorded to additional paid in capital. During the six months ended June 30, 2008 and 2009, as a result of tax deductions from stock option exercises, we recognized excess (shortfall) tax benefits of approximately $140,000 and ($996,000), respectively, which were recorded to additional paid in capital.

Convertible Preferred Stock Dividends and Discount on Preferred Stock Redemption, net. The convertible preferred stock dividends and discount on preferred stock redemption, net, decreased from $34,000 in the three months ended June 30, 2008 to $0 in the same period in 2009. The decrease was due to the redemption of all outstanding preferred stock in October 2008. Preferred stock dividends were based upon a dividend rate of 4.75%. The convertible preferred stock dividends and discount on preferred stock redemption, net, decreased from $45,000 in the six months ended June 30, 2008 to $0 in the same period in 2009. The decrease was due to the redemption of all outstanding preferred stock in October 2008. Preferred stock dividends were based upon an annual dividend rate of 4.75%.

Net Income (Loss) Applicable to Common Stockholders. Net income (loss) applicable to common stockholders decreased from net income of $509,000 for the three months ended June 30, 2008 to a net loss of $1.2 million in the same period in 2009. The decrease was primarily attributable to a decrease in revenues partially offset by lower operating expenses. Net loss applicable to common stockholders increased from a net loss of $726,000 for the six months ended June 30, 2008 to $2.8 million for the six months ended June 30, 2009.

Liquidity and Capital Resources

As of June 30, 2009, we had cash and cash equivalents of $28.7 million and we had current and long term contractual obligations of $14.9 million, of which $12.8 million is for rent under our facility leases.

Cash provided by operating activities primarily consists of net loss adjusted for certain non-cash items such as depreciation and amortization, deferred income taxes, stock-based compensation, excess tax benefit related to stock options, facility relocation and changes in working capital. Cash provided by operating activities for the six months ended June 30, 2009 of approximately $8.3 million consisted primarily of net loss of $2.8 million adjusted for non-cash items of $13.6 million, including depreciation, amortization of intangible assets, allowance for doubtful accounts and advertiser credits, stock-based compensation, deferred income taxes, and excess tax benefit related to stock options and approximately $2.4 million used for working capital and other activities. Cash provided by operating activities for the six months ended June 30, 2008 of approximately $11.2 million consisted primarily of net loss of $771,000 adjusted for non-cash items of $17.9 million, including depreciation, amortization of intangible assets, allowance for doubtful accounts and advertiser credits, stock-based compensation, deferred income taxes, and excess tax benefit related to stock options, and approximately $5.9 million used for working capital and other activities.

With respect to a significant portion of our pay-per-click advertising services, we have no corresponding payments to distribution partners related to our proprietary revenues or we receive payment from advertisers prior to our delivery of related click-throughs with the corresponding payments to the distribution partners who provide placement for the listings made only after delivery of related click-throughs. In most cases, the amount payable to the distribution partner will be calculated at the end of a calendar month, with a payment period following the delivery of the click-throughs. This payment structure results in a lag period between the earlier receipt of the cash from the advertisers and the later payment to the distribution partners. These services constituted the majority of revenue in the six months ended June 30, 2008 and 2009. In certain cases, payments to distribution partners are paid in advance or are fixed in advance based on a guaranteed minimum amount of usage delivered. Nearly all of the feed management services and advertising services provider arrangements are billed on a monthly basis following the month of our click-through delivery. This payment structure results in our advancement of monies to the distribution partners who have provided the corresponding placements of the listings. For these services, advertiser s payments are generally received one to three weeks following payment to the distribution partners. We expect that in the future periods, if the feed management services or amounts from our advertising services provider arrangements account for a greater percentage of our operating activity, working capital requirements will increase as a result.

We have payment arrangements with resellers particularly related to our proprietary traffic sources or local online advertising platforms, such as AT&T, R.H. Donnelley Corporation, Idearc Media Corp., Yellowbook USA Inc., The Cobalt Group, WhitePages, Inc., Vantage Media LLC and Intelius, Inc., whereby we receive payment between 30 and 60 days following the delivery of services. Certain of these partners have recently had debt-rating agencies downgrade their debt instruments and have capital structures that are creating liquidity uncertainty and challenges. We believe certain of these resellers are reviewing approaches to restructuring and streamlining their operations, including the recent bankruptcy filings as discussed below. For the six months ended June 30, 2009 amounts from these partners along with Yahoo! totaled 60% of revenue and $8.3 million in accounts receivable, respectively. Based on the timing of payments, we generally have this level of amounts in outstanding accounts receivable at any given time from these partners. There can be no assurances that these partners or other advertisers will not experience further financial difficulty, curtail operations, reduce or eliminate spend budgets, delay payments or otherwise forfeit balances owed. Net accounts receivable balances outstanding at June 30, 2009 from Yahoo!, AT&T, Idearc and Intelius totaled $1.6 million, $4.9 million, $75,000 and $823,000, respectively.

Idearc Media Corp. and R.H. Donnelley Corporation and its subsidiaries filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code on March 30, 2009 and May 28, 2009, respectively. With respect to Idearc, while a plan of reorganization has not yet been filed, according to Idearc, the purpose of the filing is to implement a debt restructuring with its banks and bondholders, and with respect to R.H. Donnelley, a joint plan of reorganization was filed on July 27, 2009 and the purpose of such plan is to implement a balance sheet restructuring and to reduce debt with lenders and bondholders. Throughout the restructuring process, each of Idearc and R.H. Donnelley expect to operate business as usual, to maintain substantial cash balances and to continue to generate positive cash flow. Idearc and R.H. Donnelley accounted for $2.4 million and $1.1 million of revenue, respectively, for the six months ended June 30, 2009. We did not recognize an aggregate of $1.6 million in revenue related to services delivered to Idearc and R.H. Donnelley in light of collectibility considerations for the six months ended June 30, 2009. Since payment timing remains uncertain and requires the confirmation of the plan of reorganization of each of Idearc and R.H. Donnelley by the respective Bankruptcy Court, we expect to recognize such revenue only upon cash collection and the extent of our future business relationships with Idearc and R.H. Donnelley is uncertain.

Cash provided by investing activities for the six months ended June 30, 2009 of approximately $921,000 was primarily attributable to net purchases for property and equipment of $859,000 which were more than offset by proceeds from the sales of intangible assets of approximately $1.8 million. Cash used in investing activities for the six months ended June 30, 2008 of approximately $83,000 was primarily attributable to net purchases for property and equipment of $1.7 million, payments for the Voice Services acquisition totaling approximately $128,000, and purchases for Internet domain names or Web sites of approximately $189,000, offset by proceeds from the sales of intangible assets of approximately $1.9 million. We expect property and equipment purchases will increase as we continue to invest in equipment and software. To the extent our operations increase, we expect to increase expenditures for our systems and personnel. Additionally, we have expended amounts for product development initiatives as well as amounts recorded as part of property and equipment for internally developed software. We expect our expenditures for product development initiatives and internally developed software will increase in the longer term in absolute dollars as our development activities accelerate and we increase the number of personnel and consultants to enhance our service offerings.

Cash used in financing activities for the six months ended June 30, 2009 of approximately $7.9 million was primarily attributable to the repurchase of 1.8 million shares of Class B common stock for treasury stock totaling approximately $6.6 million, and common stock dividend payments of $1.5 million, partially offset by net proceeds of approximately $60,000 from the sale of stock through employee stock options and employee stock plan purchases and $49,000 of excess tax benefits related to stock options. Cash used in financing activities for the six months ended June 30, 2008 of approximately $18.6 million was primarily attributable to the repurchase of 1.8 million shares of Class B common stock for treasury stock and 2,008 shares of preferred stock totaling approximately $17.2 million and $409,000, respectively, and common stock and preferred stock dividend payments of $1.7 million, partially offset by net proceeds of approximately $697,000 from the sale of stock through employee stock options and employee stock plan purchases and $54,000 of excess tax benefit related to stock options.

The following table summarizes our contractual obligations as of June 30, 2009, and the effect these obligations are expected to have on our liquidity and cash flows in future periods.

	Total	Less than 1 year	1-3 years	4-5 years	thereafter
Contractual Obligations:					
Operating leases	$ 12,783,524	$ 807,817	$ 2,117,110	$ 2,872,093	$ 6,986,504
Capital leases	27,710	20,015	7,695		
Other contractual obligations	2,062,421	984,504	1,063,404	14,514	
Total contractual obligations (1) (2)	$ 14,873,655	$ 1,812,336	$ 3,188,209	$ 2,886,607	$ 6,986,504

(1) In February 2005 we entered into agreements with an advertising partner pursuant to which we paid $4.5 million, in an upfront payment and a contingent royalty based on a discounted rate of 3% (3.75% under certain circumstances) of certain of our gross revenues payable on a quarterly basis through December 2016. The upfront license fee has been capitalized and has been amortized ratably over 42 months. The royalty payment is recognized as incurred in service costs and is not included in the above schedule.

(2) In June 2009, we entered into a lease agreement for office facilities in Seattle, Washington which commences on January 1, 2010 and expires on March 31, 2018. Future minimum payments related to these new facilities are approximately as follows: $700,000 in 2010, $1.2 million in 2011, $1.4 million in 2012, $1.5 million in 2013, $1.6 million in each of 2014 and 2015, and a total of $3.8 million from 2016 to 2018.

Table of Contents

We expect to continue acquiring Internet domains or Web sites in the normal course of business as we grow our proprietary network of Web sites.

We anticipate that we will need to invest working capital towards the development and expansion of our overall operations. We may also make a significant number of acquisitions, which could result in the reduction of our cash balances or the incurrence of debt. On April 1, 2008, we entered into a three year credit agreement which provides us with a $30 million senior secured revolving credit line, which may be used for various corporate purposes including financing permitted acquisitions, subject to compliance with applicable covenants. As of June 30, 2009, we had $30 million of availability under the credit agreement. Furthermore, we expect that capital expenditures may increase in future periods, particularly if our operating activity increases.

In November 2006, our Board of Directors authorized a share repurchase program to repurchase up to 3 million shares of our Class B common stock as well as the initiation of a quarterly cash dividend for the holders of the Class A common stock and Class B common stock. The Board of Directors have authorized increases in the share repurchase program to provide for the repurchase up to 9 million shares in the aggregate (less shares previously repurchased under the share repurchase program) of our Class B common stock. Under the revised share repurchase program, repurchases may take place in the open market and in privately negotiated transactions and at times and in such amounts as we deem appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, capital availability, and other market conditions. This stock repurchase program does not have an expiration date and may be limited or terminated at any time without prior notice. During the six months ended June 30, 2009, approximately 1.8 million shares of Class B common stock were repurchased. The quarterly cash dividend was initiated at $0.02 per share of Class A common stock and Class B common stock. For 2008, quarterly dividends were paid on February 15, May 15, August 15 and November 17 to Class A and Class B common stockholders of record as of the close of business on February 2, May 4, August 4 and November 6, respectively. For 2009, quarterly dividends were paid on February 17 and May 15 to Class A and Class B common stockholders of record as of the close of business of February 6 and May 4, respectively. The aggregate quarterly dividend paid in May 2009 was approximately $721,000. Under Delaware law, dividends to stockholders may be made only from the surplus of a company, or, in certain situations, from the net profits for the current fiscal year before the dividend is declared by the board of directors.

In July 2009, our Board of Directors declared a regular quarterly dividend of $0.02 per share on our Class A common stock and Class B common stock. Marchex will pay these dividends on August 17, 2009 to the holders of record as of the close of business on August 7, 2009. Although we expect that the annual cash dividend, subject to capital availability, will be $0.08 per common share or approximately $2.9 million for the foreseeable future, there can be no assurance that we will continue to pay dividends at such a rate or at all.

Based on our operating plans we believe that our existing credit availability, resources and cash flow provided by ongoing operations, will be sufficient to fund our operations for at least twelve months. Additional equity and debt financing may be needed to support our acquisition strategy, our long-term obligations and our Company s needs. If additional financing is necessary, it may not be available; and if it is available, it may not be possible for us to obtain financing on satisfactory terms. Failure to generate sufficient revenue or raise additional capital could have a material adverse effect on our ability to continue as a going concern and to achieve our intended business objectives.

Critical Accounting Policies

The policies below are critical to our business operations and the understanding of our results of operations. In the ordinary course of business, we make a number of estimates and assumptions relating to the reporting of our results.

Our consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America. The preparation of these condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and the related disclosures of contingent assets and liabilities. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our critical accounting policies relate to the following matters and are described below:

- Revenue;

Goodwill and intangible assets;

Stock-based compensation;

Allowance for doubtful accounts, advertiser and incentive program credits; and

Provision for income taxes.

Revenue

We currently generate revenue through our operating businesses by delivering performance-based and search marketing services to advertisers and advertising service providers. The primary revenue driver has been performance-based advertising, which includes pay-per-click listings, pay-per-phone-call services, cost-per-action services and feed management services. For pay-per-click listing and feed management services, revenue is recognized upon our delivery of qualified and reported click-throughs to our advertisers or advertising service providers listing which occurs when an online user clicks on any of their advertisements after it has been placed by us or by our distribution partners. Each click-through on an advertisement listing represents a completed transaction. For cost-per-action services, revenue is recognized when the online user is redirected from one of our Web sites or a third-party Web site in our distribution network to an advertiser Web site and completes the specified action, such as when a phone number is provisioned or call is placed. In certain cases, we record revenue based on available and reported preliminary information from third parties. Collection on the related receivables may vary from reported information based upon third-party refinement of the estimated and reported amounts owing that occurs subsequent to period ends.

We have entered into agreements with various distribution partners in order to expand our distribution network, which includes search engines, directories, product shopping engines, certain third-party Web sites and our portfolio of Web sites, on which we include our advertisers listings. We generally pay distribution partners based on a specified percentage of revenue or a fixed amount per click-through on these listings. We act as the primary obligor in these transactions, and we are responsible for providing customer and administrative services to the advertiser. In accordance with Emerging Issues Task Force Issue (EITF) No. 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent*, the revenue derived from advertisers who receive paid introductions through us as supplied by distribution partners is reported gross based upon the amounts received from the advertiser. We also recognize revenue for certain agency contracts with advertisers under the net revenue recognition method. Under these specific agreements, we purchase listings on behalf of advertisers from search engines and directories. We are paid an agency fee based on the total amount of the purchase made on behalf of these advertisers. Under these agreements, our advertisers are primarily responsible for choosing the publisher and determining pricing, and the Company, in certain instances, is only financially liable to the publisher for the amount collected from our advertisers. This creates a sequential liability for media purchases made on behalf of advertisers. In certain instances, the Web publishers engage the advertisers directly and we are paid an agency fee based on the total amount of the purchase made by the advertiser.

We apply EITF Issue No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables* (EITF 00-21), to account for revenue arrangements with multiple deliverables. EITF 00-21 addresses certain aspects of accounting by a vendor for arrangements under which the vendor will perform multiple revenue-generating activities. When an arrangement involves multiple elements, the entire fee from the arrangement is allocated to each respective element based on its relative fair value and recognized when revenue recognition criteria for each element are met. Fair value for each element is established based on the sales price charged when the same element is sold separately.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed in business combinations accounted for under the purchase method.

We apply the provisions of the Financial Accounting Standards Board s (FASB) SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Asset* (SFAS 144).

Goodwill is tested annually for impairment and is tested for impairment more frequently if events and circumstances indicate that the asset is more likely than not impaired. Events and circumstances considered in determining whether goodwill is impaired include, but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; and a significant decline in the Company s stock price and/or market capitalization for a sustained period of time. At various points during the three and six months ended June 30, 2009, the Company s stock price approached or dropped below the then book value per share. If our stock price were to trade below book value per share for an extended period of time and/or we continue to experience adverse effects of a continued downward trend in the overall economic environment, changes in the business itself, including changes in projected earnings and cash flows, we may have to recognize an impairment of all or some portion of our goodwill. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. If the fair value is lower than the carrying value, a material impairment charge may be reported in our financial results. We exercise judgment in the assessment of the related useful lives of intangible assets, the fair values and the recoverability. In certain instances, the fair value is determined in part based on cash flow forecasts and discount rate estimates. We

Table of Contents

review our long-lived assets for impairment in accordance with SFAS 144 whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. To the extent such evaluation indicates that the useful lives of intangible assets are different than originally estimated, the amortization period is reduced or extended and, accordingly, amortization expense is increased or decreased. Recoverability of assets held and used is measured by a comparison of the carrying amount of an asset group to estimated undiscounted future cash flows expected to be generated by the asset group. If such asset group is considered to be impaired, the impairment is to be recognized by the amount by which the carrying amount of the assets exceeds fair value. Assets to be disposed of are separately presented on the balance sheet and reported at the lower of their carrying amount or fair value less costs to sell, and are no longer depreciated. We cannot accurately predict the amount and timing of any impairment of goodwill or other intangible assets. Should goodwill or other intangible assets become impaired, we would record the appropriate charge, which could have an adverse effect on our financial condition and results of operations.

In the fourth quarter of 2008, we performed our annual impairment testing in accordance with SFAS 142 and in light of the then current macroeconomic environment and significant decrease in market capitalization. We also performed a review of certain of our intangible assets under SFAS 144. As a result of this testing, we recorded a $176.7 million pre-tax impairment charge on goodwill and intangible assets in the fourth quarter of 2008. The impairment charge resulted in part from adverse equity and credit market conditions that caused a sustained decrease in current market multiples and the company s stock price, a decrease in valuations of U.S. public companies and corresponding increased costs of capital created by the weakness in the U.S. financial markets and decreases in cash flow forecasts for us and the markets in which we operate. Certain technology and domain assets were written-down due to the decreased cash flow forecasts and planned utilization of the assets. The impairment charges will not result in any current or future cash expenditures.

For the three and six months ended June 30, 2009, the U.S. financial markets and our stock price have been impacted by continued deterioration in economic conditions. Should economic conditions and other indicators further deteriorate or impact our ability to achieve levels of forecasted operating results and cash flows, or should other events occur indicating the remaining carrying value of goodwill might be impaired, we would test our intangible assets for impairment and may recognize an additional impairment loss to the extent that the carrying amount exceeds such asset s fair value.

Any future additional impairment charges or changes to the estimated amortization periods could have a material adverse effect on our financial results.

Stock-Based Compensation

SFAS 123R requires the measurement and recognition of compensation for all stock-based awards made to employees and directors including stock options and restricted stock issuances based on estimated fair values. Under the fair value recognition provisions of SFAS 123R, we recognize stock-based compensation net of an estimated forfeiture rate and therefore only recognize compensation cost for those shares expected to vest over the service period of the award.

Under SFAS 123R, we use the Black-Scholes option pricing model as our method of valuation for stock-based awards. Our determination of the fair value of stock-based awards on the date of grant using an option pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the expected life of the award, volatility over the term of the award, the risk-free interest rate, and projected exercise behaviors. Although the fair value of stock-based awards is determined in accordance with SFAS 123R, the assumptions used in calculating fair value of stock-based awards and the Black-Scholes option pricing model are highly subjective, and other reasonable assumptions could provide differing results. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. We estimate the forfeiture rate based on historical experience of our stock-based awards that are granted, exercised and cancelled. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period. See Note 3 Stock-based Compensation Plans in the condensed consolidated financial statements for additional information.

Allowance for Doubtful Accounts and Advertiser and Incentive Program Credits

Accounts receivable balances are presented net of allowance for doubtful accounts and advertiser credits. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our accounts receivable. We determine our allowance based on analysis of historical bad debts, advertiser concentrations, advertiser creditworthiness and current economic trends. We review the allowance for collectibility on a quarterly basis. Account balances are written off against the allowance after all reasonable means of collection have been exhausted and the potential recovery is considered remote. If the financial condition of our advertisers were to deteriorate, resulting in an impairment of their ability to make payments, or if we underestimated the allowances required, additional allowances may be required which would result in increased general and administrative expenses in the period such determination was made.

Table of Contents

We determine our allowance for advertiser credits and adjustments based upon our analysis of historical credits. Under the advertiser incentive program, we grant advertisers credits depending upon the individual amounts of prepayments made. The incentive program allowance is determined based on the historical rate of incentives earned and used by advertisers compared to the related revenues recognized by us. Material differences may result in the amount and timing of our revenue for any period if our management made different judgments and estimates.

Provision for Income Taxes

For income tax purposes, we utilize the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in results of operations in the period that includes the enactment date.

Each reporting period we must assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent that realization is not more likely than not, a valuation allowance must be established. The establishment of a valuation allowance and increases to such an allowance result in either increases to income tax expense or reduction of income tax benefit in the statement of operations. Although realization is not assured, we believe it is more likely than not, based on operating performance and projections of future taxable income, that our net deferred tax assets, excluding certain state net operating loss carryforwards, will be realized. In determining that it was more likely than not that we would realize the deferred tax assets, factors considered included: historical taxable income, historical trends related to advertiser usage rates, projected revenues and expenses, macroeconomic conditions, issues facing our industry, existing contracts, our ability to project future results and any appreciation of our other assets. Additionally, the majority of our deferred tax assets have arisen due to deductions taken in our financial statements related to the impairment of goodwill and amortization of intangible assets recorded in connection with various acquisitions that are tax-deductible over 15 year periods. Based on projections of future taxable income the Company expects to be able to recover these assets. The amount of the net deferred tax assets considered realizable, however, could be reduced in the near term if our projections of future taxable income are reduced or if we do not perform at the levels we are projecting. This could result in increases to the valuation allowance for deferred tax assets and a corresponding increase to income tax expense of up to the entire net amount of deferred tax assets.

From time to time, various state, federal, and other jurisdictional tax authorities undertake reviews of us and our filings. We believe any adjustments that may ultimately be required as a result of any of these reviews will not be material to the financial statements.

In July 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* This pronouncement prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in the our tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure requirements for uncertain tax positions.

As of June 30, 2009, we have net deferred tax assets of $56.3 million, relating to the impairment of goodwill, amortization of intangible assets, net operating loss carryforwards and certain other temporary differences. As of June 30, 2009, based upon both positive and negative evidence available, we have determined it is not more likely than not that certain deferred tax assets primarily relating to net operating loss carryforwards in state and foreign jurisdictions will be realized and accordingly, have recorded a valuation allowance of $1.7 million against these deferred tax assets. Should we determine in the future that we will be able to realize these deferred tax assets, or not be able to realize all or part of our remaining net deferred tax assets recorded as of June 30, 2009, an adjustment to the net deferred tax assets would impact net income or stockholders equity in the period such determination was made.

As of June 30, 2009, we had federal net operating loss, or NOL, carryforwards of $1.7 million which will begin to expire in 2019. The Tax Reform Act of 1986 limits the use of NOL and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. We believe that such a change has occurred, and that the utilization of the approximately $1.7 million of NOL carryforwards is limited such that substantially all of these federal NOL carryforwards will never be utilized.

As of June 30, 2009, we had certain tax effected state net operating loss carryforwards of approximately $4.0 million. We do not have a history of taxable income in the relevant state and the state net operating loss carryforwards will more likely than not expire unutilized. Therefore, we have recorded a 100% valuation allowance on the state net operating loss carryforwards as of June 30, 2009.

Table of Contents

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement* (SFAS 157), which clarifies the definition of fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. In February 2008, the FASB issued a FASB Staff Position FSP SFAS 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The FSP defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008. Accordingly, we adopted the required provisions of SFAS 157 on January 1, 2008 and the remaining provisions will be adopted by us at the beginning of fiscal year 2009. The 2008 fiscal year adoption of the required provisions did not result in a material impact to our financial statements. The remaining aspects of SFAS 157 for which the effective date was deferred under FSP SFAS 157-2 did not result in a material impact to our financial statements.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (SFAS 141R), which replaces SFAS 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed and any resulting goodwill. The pronouncement also provides for disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R will be effective for us on January 1, 2009. For any business combination that takes place subsequent to January 1, 2009, SFAS 141R may have a material impact on our financial statements. The nature and extent of any such impact will depend upon the terms and conditions of the transaction. On April 1, 2009 the FASB issued FSP FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies* (FSP FAS 141(R)-1). FSP FAS 141(R)-1 amends and clarifies SFAS 141R to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP is effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after January 1, 2009. In April 2008, the FASB issued FSP SFAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP SFAS 142-3), which amends the factors that should be considered in developing renewal or extension assumptions used in determining the useful life of a recognized intangible asset. FSP SFAS 142-3 also adds additional disclosures to be included in the footnotes to the financial statements. FSP SFAS 142-3 is effective for fiscal years beginning after December 15, 2008 and interim periods within those years. The adoption of FSP SFAS 142-3 did not have a material impact on our financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1), which addresses whether instruments granted unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid are participating securities prior to vesting and would need to be included in the earnings allocation in computing earnings per share under the two-class method of SFAS No. 128, *Earnings per Share.* Under the two-class method required by EITF 03-6-1, a portion of net income (loss) is allocated to these participating securities and therefore is excluded from the calculation of EPS allocated to common stock. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 and interim periods within those years. We adopted this FSP on January 1, 2009 and retrospectively adjusted our earnings per share data to conform with the provisions in EITF 03-6-1. The retrospective application of this method did not result in a change to our three and six months ended June 30, 2008 earnings per share.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 applies prospectively to both interim and annual financial periods ending after June 15, 2009. We adopted these requirements for the quarter ending June 30, 2009.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our exposure to market risk is limited to interest income sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because the majority of our investments are in short-term, money market funds. Due to the nature of our short-term investments, we believe that we are not subject to any material market risk exposure. We do not have any material foreign currency or other derivative financial instruments.

Our existing credit facility bears interest at a rate which will be, at our option, either: (i) the applicable margin rate (depending on our leverage) plus the one-month LIBOR rate reset daily, or (ii) the applicable margin rate plus the 1, 2, 3, or 6-month LIBOR rate. This facility is exposed to market rate fluctuations and may impact the interest paid on any borrowings under the credit facility. Currently, we have no borrowings under this facility; however, an increase in interest rates would impact interest expense on future borrowings.

34

Table of Contents

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our chief executive officer and our chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on this evaluation, our chief executive officer and our chief financial officer have concluded that, as of the date of the evaluation, our disclosure controls and procedures were effective.

Changes in Internal Controls

During the quarter ended June 30, 2009, no change was made to our internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can not provide absolute assurance of achieving the desired control objectives.

In addition, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Part II Other Information

Item 1. Legal Proceedings

We are not a party to any material legal proceedings. From time to time, however, we may be subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of intellectual property rights, and a variety of claims arising in connection with our services.

Item 1A. Risk Factors

We have updated the risk factors previously disclosed in Part I, Item 1A. under the caption Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2008, which was filed with the SEC on March 16, 2009. We do not believe any of the changes constitute material changes to the risk factors.

An investment in our Class B common stock involves various risks, including those mentioned below and those that are discussed from time to time in our other periodic filings with the SEC. Investors should carefully consider these risks, along with the other information contained in this report, before making an investment decision regarding our stock. There may be additional risks of which we are currently unaware, or which we currently consider immaterial. All of these risks could have a material adverse effect on our financial condition, our results of operations, and the value of our stock.

Risks Relating to Our Company

Our limited operating history makes evaluation of our business difficult.

We were formally incorporated in January 2003. We acquired Enhance Interactive in February 2003 which was recently renamed Marchex Adhere PPC, TrafficLeader in October 2003, which was recently renamed Marchex Connect NA, and goClick in July 2004. In February and April 2005, we completed the acquisitions of certain assets of Name Development and Pike Street Industries, respectively. In July 2005 we completed the acquisition of IndustryBrains, which was recently renamed Marchex Adhere SSC. In May 2006 we completed the acquisition of certain assets of AreaConnect and Open List. In September 2007, we completed the acquisition of VoiceStar, which was recently renamed Marchex Voice Services.

We have limited historical financial data upon which to base planned operating expenses or forecast accurately our future operating results. Further, our limited operating history will make it difficult for investors and securities analysts to evaluate our business and prospects. Our failure to address these risks and difficulties successfully could seriously harm us.

We have largely incurred net losses since our inception, and we may incur net losses in the foreseeable future.

We had an accumulated deficit of $138.5 million as of June 30, 2009. Our net expenses may increase based on the initiatives we undertake which for instance, may include increasing our sales and marketing activities, hiring additional personnel, incurring additional costs as a result of being a public company, acquiring additional businesses and making additional equity grants to our employees.

We may continue to increase our direct monetization of our proprietary traffic sources, which could adversely affect our revenues.

Our strategic plan has been to increase our direct monetization of our proprietary traffic sources by using more of the advertising listings on our Local Search Network to display the advertisements of advertisers who are on our direct technology platform and those with whom we have direct relationships, as opposed to advertisers from third parties. This monetization may not be of the same rate levels as other advertising providers and as a result could adversely affect our revenues.

We are dependent on certain distribution partners for distribution of our services and we derive a significant portion of our total revenue through these distribution partners. A loss of distribution partners or a decrease in revenue from certain distribution partners could adversely affect our business.

A relatively small number of distribution partners currently deliver a significant percentage of traffic to our advertiser listings. Yahoo! is our largest distribution partner and delivers traffic to our advertiser listings which collectively represents approximately 8% of our total revenue for the six months ended June 30, 2009. Separately, Yahoo! was responsible for 10% of our total revenue during the same period principally in respect of the revenues associated with our portfolio of domains.

Our existing agreements with many of our other larger distribution partners permit either company to terminate without penalty on short notice and are primarily structured on a variable-payment basis, under which we make payments based on a specified percentage of revenue or based on the number of paid click-throughs. Yahoo! and Microsoft recently announced a new partnership which if ultimately consummated may impact Yahoo! s service offering and therefore their distribution of our services in the future. We intend to continue devoting resources in support of our larger distribution partners, but there are no guarantees that these relationships will remain in place over the short- or long-term. In addition, we cannot be assured that any of these distribution partners will continue to generate current levels of revenue for us or that we will be able to maintain the applicable variable payment terms at their current levels. A loss of any of these distribution partners or a decrease in revenue due to lower traffic or less favorable variable payment terms from any one of these distribution relationships could have an adverse effect on our revenue, and the loss of Yahoo! or any other large distribution partner could have a material adverse effect on our business, financial condition and results of operations.

Companies distributing advertising on the Internet have experienced, and will likely continue to experience, consolidation. This consolidation has reduced the number of partners that control the online advertising outlets with the most user traffic. According to the comScore Media Metrix Search report for December 2007, Yahoo! Search accounted for 23% of the online searches in the United States and Google accounted for 58%. As a result, the larger distribution partners have greater control over determining the market terms of distribution, including placement of advertisements and cost of placement. In addition, many participants in the performance-based advertising and search marketing industries control significant portions of the traffic that they deliver to advertisers. We do not believe, for example, that Yahoo! and Google are as reliant as we are on a third-party distribution network to deliver their services. This gives these companies a significant advantage over us in delivering their services, and with a lesser degree of risk.

We rely on certain advertiser resellers and agencies, including AT&T, Idearc Media Corp., Yellowbook USA Inc., The Cobalt Group, WhitePages, Inc., Vantage Media, LLC and Intelius, Inc., for the purchase of various advertising and marketing services, as well as to provide us with a large number of advertisers. A loss of certain advertiser resellers and agencies or a decrease in revenue from these advertiser resellers could adversely affect our business. Such advertiser resellers are subject to varying terms and conditions which may result in claims or credit risks to us.

We benefit from the established relationships and national sales teams that certain of our advertiser resellers, who are leading aggregators of advertisers and advertising agencies, have in place throughout the country and in local markets. These advertiser resellers and agencies refer or bring advertisers to us for the purchase of various advertising products and services. We derive a sizeable portion of our total revenue through these advertiser resellers and agencies. A loss of certain advertiser resellers and agencies or a decrease in revenue from these advertiser resellers could adversely affect our business.

These advertisers may in certain cases be subject to negotiated terms and conditions separate from those applied to online clients accepted and processed through our automated advertiser management platform. In some cases, the applicable contract terms may be the result of legacy or industry association documentation or simply customized advertising solutions for large advertiser resellers and agencies. In any case, as a consequence of such varying terms and conditions, we may be subject to claims or credit risks that we may otherwise mitigate more efficiently across our automated advertiser management platform.

These claims and risks may vary depending on the nature of the aggregated client base. Among other claims, we may be subject to disputes based on third party tracking information or analysis. We may also be subject to differing credit profiles and risks based on the agency relationship associated with these advertisers. For such advertisers, payment may be made on an invoice basis, unlike our retail platform which in many instances is paid in advance of the service. In some limited circumstances we may also have accepted individual advertiser payment liability in place of liability of the advertising agency or media advisor.

Table of Contents

We received approximately 55% and 54% of our revenue from our five largest customers for the year ended December 31, 2008 and for the six months ended June 30, 2009, respectively, and the loss of one or more of these customers could adversely impact our results of operations and financial condition.

Our five largest customers (which includes Idearc discussed below) accounted for approximately 55% of our total revenues for the year ended December 31, 2008 and 54% for the six months ended June 30, 2009, respectively. Certain of these customers are not subject to long term contracts with us and are generally able to reduce advertising spending at any time and for any reason. A significant reduction in advertising spending by our largest customers, or the loss of one or more of these customers, if not replaced by new customers or an increase in business from existing customers, would adversely affect revenues. This could have a material adverse effect on our results of operations and financial condition.

If some of our customers experience financial distress, their weakened financial position could negatively affect our own financial position and results.

We have a diverse customer base and, at any given time, one or more customers may experience financial distress, file for bankruptcy protection or go out of business. If a customer with whom we do a substantial amount of business experiences financial difficulty, it could delay or jeopardize the collection of accounts receivable, result in significant reductions in services provided by us and may have a material adverse effect on our results of operations and liquidity.

Idearc Media Corp. and R.H. Donnelley Corporation and its subsidiaries filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code on March 30, 2009 and May 28, 2009, respectively. With respect to Idearc, while a plan of reorganization has not yet been filed, according to Idearc, the purpose of the filing is to implement a debt restructuring with its banks and bondholders, and with respect to R.H. Donnelley, a joint plan of reorganization was filed on July 27, 2009 and the purpose of such plan is to implement a balance sheet restructuring and to reduce debt with lenders and bondholders. Throughout the restructuring process, each of Idearc and R.H. Donnelley expect to operate business as usual, to maintain substantial cash balances and to continue to generate positive cash flow. Idearc and R.H. Donnelley accounted for $2.4 million and $1.1 million of revenue, respectively, for the six months ended June 30, 2009. We did not recognize an aggregate of $1.6 million in revenue related to services delivered to Idearc and R.H. Donnelley in light of collectibility considerations for the six months ended June 30, 2009. Since payment timing remains uncertain and requires the confirmation of the plan of reorganization of each of Idearc and R.H. Donnelley by the respective Bankruptcy Court, we expect to recognize such revenue only upon cash collection and the extent of our future business relationships with Idearc and R.H. Donnelley is uncertain.

We may incur liabilities for the activities of our advertisers, distribution partners and other users of our services, which could adversely affect our business.

Many of our advertisement generation and distribution processes are automated. In most cases, advertisers use our online tools and account management systems to create and submit advertiser listings. These advertiser listings are submitted in a bulk data feed to our distribution partners. Although we monitor our distribution partners on an ongoing basis primarily for traffic quality, these partners control the distribution of the advertiser listings provided in the data feed.

As a result, we do not conduct a manual editorial review of a substantial number of the advertiser listings directly submitted by advertisers online, nor do we manually review the display of the vast majority of the advertiser listings by our distribution partners submitted to us by XML data feeds or data dumps. In cases where we provide editorial or value-added services for our large aggregator clients or agencies, such as ad creation and optimization for local advertisers or landing pages and micro-sites for pay-per-phone call customers, we may rely on the content and information provided to us by these agents on behalf of their individual advertisers. We may not investigate the individual business activities of these advertisers other than the information provided to us or in some cases review of advertiser Web sites. We may not successfully avoid liability for unlawful activities carried out by our advertisers and other users of our services or unpermitted uses of our advertiser listings by distribution partners and their affiliates.

Our potential liability for unlawful activities of our advertisers and other users of our services or unpermitted uses of our advertiser listings and advertising services and platform by distribution partners and advertiser aggregators and agencies could require us to implement measures to reduce our exposure to such liability, which may require us, among other things, to spend substantial resources, to discontinue certain service offerings or to terminate certain distribution partner relationships. For example, as a result of the actions of advertisers in our network, we may be subject to private or governmental actions relating to a wide variety of issues, such as privacy, gambling, promotions, and intellectual property ownership and infringement. Under agreements with certain of our larger distribution partners, we may be required to indemnify these distribution partners against liabilities or losses resulting from the content of our advertiser listings. Although our advertisers indemnify us with respect to claims arising from these listings, we may not be able to recover all or any of the liabilities or losses incurred by us as a result of the activities of our advertisers.

Table of Contents

We have a large number of distribution partners who display our advertiser listings on their networks. Our advertiser listings are predominantly delivered to our distribution partners in an automated fashion through an XML data feed or data dump. Our distribution partners are contractually required to use the advertiser listings that we provide in accordance with applicable laws and regulations and in conformity with the publication restrictions included in our agreements, which are intended to promote the quality and validity of the traffic provided to our advertisers. Nonetheless, we do not operationally control or manage these distribution partners and any breach of these agreements on the part of any distribution partner or its affiliates could result in liability for our business. These agreements include indemnification obligations on the part of our distribution partners, but there is no assurance that we would be able to collect against offending distribution partners or their affiliates in the event of a claim under these indemnification provisions.

Our insurance policies may not provide coverage for liability arising out of activities of users of our services. In addition, our reliance on some content and information provided to us by our large advertiser resellers and agencies may expose us to liability not covered by our insurance policies. Furthermore, we may not be able to obtain or maintain adequate insurance coverage to reduce or limit the liabilities associated with our businesses. Any costs incurred as a result of such liability or asserted liability could have a material adverse effect on our business, operating results and financial condition.

If we do not maintain and grow a critical mass of advertisers and distribution partners, the value of our services could be adversely affected.

Our success depends, in large part, on the maintenance and growth of a critical mass of advertisers and distribution partners and a continued interest in our performance-based advertising and search marketing services. Advertisers will generally seek the most competitive return on investment from advertising and marketing services. Distribution partners will also seek the most favorable payment terms available in the market. Advertisers and distribution partners may change providers or the volume of business with a provider, unless the product and terms are competitive. In this environment, we must compete to acquire and maintain our network of advertisers and distribution partners.

If our business is unable to maintain and grow our base of advertisers, our current distribution partners may be discouraged from continuing to work with us, and this may create obstacles for us to enter into agreements with new distribution partners. Our business also in part depends on certain of our large advertiser resellers and agencies to grow their base of advertisers, as these advertisers become increasingly important to our business and our ability to attract additional distribution partners and opportunities. Similarly, if our distribution network does not grow and does not continue to improve over time, current and prospective advertisers and large advertiser resellers and agencies may reduce or terminate this portion of their business with us. Any decline in the number of advertisers and distribution partners could adversely affect the value of our services.

We are dependent upon the quality of traffic in our network to provide value to our advertisers and the advertisers of our partners, and any failure in our quality control could have a material adverse effect on the value of our services to our advertisers and adversely affect our revenues.

We utilize certain monitoring processes with respect to the quality of the traffic that we deliver to our advertisers. Among the factors we seek to monitor are sources and causes of low quality clicks such as non-human processes, including robots, spiders or other software, the mechanical automation of clicking, and other types of invalid clicks, click fraud, or click spam, the purpose of which is something other than to view the underlying content. Additionally, we also seek to identify other indicators which may suggest that a user may not be targeted by or desirable to our advertisers. Even with such monitoring in place, there is a risk that a certain amount of low-quality traffic or traffic that is deemed to be less valuable by our advertisers will be delivered to such advertisers, which may be detrimental to those relationships. We have regularly refunded fees that our advertisers had paid to us which were attributed to low quality traffic. If we are unable to stop or reduce low quality traffic, these refunds may increase. Low-quality traffic may further prevent us from growing our base of advertisers and cause us to lose relationships with existing advertisers, or become the target of litigation, both of which would adversely affect our revenues.

We may be subject to intellectual property claims, which could adversely affect our financial condition and ability to use certain critical technologies, divert our resources and management attention from our business operations and create uncertainty about ownership of technology essential to our business.

Our success depends, in part, on our ability to protect our intellectual property and to operate without infringing on the intellectual property rights of others in the process. There can be no guarantee that any of our intellectual property will be adequately safeguarded, or that it will not be challenged by third parties. We may be subject to patent infringement claims or other intellectual property infringement claims, including claims of trademark infringement in connection with our acquisition of previously-owned Internet domain names and claims of copyright infringement with respect to certain of our proprietary Web sites that would be costly to defend and could limit our ability to use certain critical technologies.

Table of Contents

Any patent or other intellectual property litigation could negatively impact our business by diverting resources and management attention from other aspects of the business and adding uncertainty as to the ownership of technology, services and property that we view as proprietary and essential to our business. In addition, a successful claim of patent infringement against us and our failure or inability to license the infringed or similar technology on reasonable terms, or at all, could prevent us from using critical technologies which could have a material adverse effect on our business.

We may need additional funding to meet our obligations and to pursue our business strategy. Additional funding may not be available to us and our financial condition could therefore be adversely affected.

We may require additional funding to meet our ongoing obligations and to pursue our business strategy, which may include the selective acquisition of businesses and technologies. In addition, we have incurred and we may incur certain obligations in the future. There can be no assurance that if we were to need additional funds to meet these obligations that additional financing arrangements would be available in amounts or on terms acceptable to us, if at all. Furthermore, if adequate additional funds are not available, we will be required to delay, reduce the scope of, or eliminate material parts of the implementation of our business strategy, including potential additional acquisitions or internally-developed businesses.

Our acquisitions could divert management s attention, cause ownership dilution to our stockholders, cause our earnings to decrease and be difficult to integrate.

Our business strategy includes identifying, structuring, completing and integrating acquisitions. Acquisitions in the technology and Internet sectors involve a high degree of risk. We may also be unable to find a sufficient number of attractive opportunities to meet our objectives which include revenue growth, profitability and competitive market share. Our acquired companies may have histories of net losses and may expect net losses for the foreseeable future.

Acquisitions are accompanied by a number of risks that could harm our business, operating results and financial condition:

- We could experience a substantial strain on our resources, including time and money, and we may not be successful;
- Our management s attention could be diverted from our ongoing business concerns;
- While integrating new companies, we may lose key executives or other employees of these companies;
- We may issue shares of our Class B common stock as consideration for acquisitions which may result in ownership dilution to our stockholders;
- We could fail to successfully integrate our financial and management controls, technology, reporting systems and procedures, or adequately expand, train and manage our workforce;
- We could experience customer dissatisfaction or performance problems with an acquired company or technology;
- We could become subject to unknown or underestimated liabilities of an acquired entity or incur unexpected expenses or losses from such acquisitions;

We could incur possible impairment charges related to goodwill or other intangible assets or other unanticipated events or circumstances, any of which could harm our business; and

We may be exposed to investigations and/or audits by federal, state or other taxing authorities.

Consequently, we might not be successful in integrating any acquired businesses, products or technologies, and might not achieve anticipated revenue and cost benefits.

The loss of our senior management, including our founding executive officers, could harm our current and future operations and prospects.

We are heavily dependent upon the continued services of Russell C. Horowitz, our chairman and chief executive officer, and John Keister, our president, and the other members of our senior management team. Each member of our senior management team is an at-will employee and may voluntarily terminate his employment with us at any time with minimal notice. Russell C. Horowitz, Ethan A. Caldwell, Peter Christothoulou and John Keister, our founding executive officers, each own shares of fully vested Class A common stock. Following any termination of employment, each of these employees would only be subject to a twelve-month non-competition and non-solicitation obligation with respect to our customers and employees under our standard confidentiality agreement.

Further, as of June 30, 2009, Russell C. Horowitz, Ethan A. Caldwell, Peter Christothoulou and John Keister together controlled 92% of the combined voting power of our outstanding capital stock. Their collective voting control is not tied to their continued employment with Marchex. The loss of the services of any member of our senior management, including our founding executive officers, for any reason, or any conflict among our founding executive officers, could harm our current and future operations and prospects.

We may have difficulty retaining current personnel as well as attracting and retaining additional qualified, experienced, highly skilled personnel, which could adversely affect the implementation of our business plan.

Our performance is largely dependent upon the talents and efforts of highly skilled individuals. In order to fully implement our business plan, we will need to retain our current qualified personnel, as well as attract and retain additional qualified personnel. Thus, our success will in significant part depend upon our retention of current personnel as well as the efforts of personnel not yet identified and upon our ability to attract and retain highly skilled managerial, engineering, sales and marketing personnel. We are also dependent on managerial and technical personnel to the extent they may have knowledge or information about our businesses and technical systems that may not be known by our other personnel. There can be no assurance that we will be able to attract and retain necessary personnel. The failure to hire and retain such personnel could adversely affect the implementation of our business plan.

If we are unable to obtain and maintain adequate insurance, our financial condition could be adversely affected in the event of uninsured or inadequately insured loss or damage. Our ability to effectively recruit and retain qualified officers and directors may also be adversely affected if we experience difficulty in maintaining adequate directors and officers liability insurance.

We may not be able to obtain and maintain insurance policies on terms affordable to us that would adequately insure our business and property against damage, loss or claims by third parties. To the extent our business or property suffers any damages, losses or claims by third parties that are not covered or adequately covered by insurance, our financial condition may be materially adversely affected.

We currently have directors and officers liability insurance. If we are unable to maintain sufficient insurance as a public company to cover liability claims made against our officers and directors, we may not be able to retain or recruit qualified officers and directors to manage our company, which could have a material adverse effect on our operations.

It may be difficult for us to retain or attract qualified officers and directors, which could adversely affect our business and our ability to maintain the listing of our Class B common stock on the Nasdaq Global Market.

We may be unable to attract and retain qualified officers, directors and members of board committees required to provide for our effective management as a result changes in the rules and regulations which govern publicly-held companies, including, but not limited to, certifications from executive officers and requirements for financial experts on boards of directors. The perceived increased personal risk associated with these recent changes may deter qualified individuals from accepting these roles. Further, applicable rules and regulations of the Securities and Exchange Commission and the Nasdaq Stock Market heighten the requirements for board or committee membership, particularly with respect to an individual s independence from the corporation and level of experience in finance and accounting matters. We may have difficulty attracting and retaining directors with the requisite qualifications. If we are unable to attract and retain qualified officers and directors, our business and our ability to maintain the listing of our shares of Class B common stock on the Nasdaq Global Market could be adversely affected.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud, which could harm our brand and operating results.

Effective internal controls are necessary for us to provide reliable and accurate financial reports and effectively prevent fraud. We have devoted significant resources and time to comply with the new internal control over financial reporting requirements of the Sarbanes-Oxley Act of 2002. In addition, Section 404 under the Sarbanes-Oxley Act of 2002 requires that we assess and our auditors attest to the effectiveness of our controls over financial reporting. Our current and future compliance with the annual internal control report requirement will depend on the effectiveness of our financial reporting and data systems and controls across our operating subsidiaries. We expect these systems and controls to become increasingly complex to the extent that we integrate acquisitions and our business grows. To effectively manage this growth, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. We cannot be certain that these measures will ensure that we design, implement and maintain adequate controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation or operation, could harm our operating results or cause us to fail to meet our financial reporting obligations. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock and our access to capital.

40

Table of Contents

Accounting for employee stock options using the fair value method has significantly reduced and will likely continue to significantly reduce our net income.

We adopted the provisions of SFAS 123R on January 1, 2006. Thus, our consolidated financial statements reflect the fair value of stock options granted to employees as a compensation expense, which has had, and will in the future likely continue to have, a significant adverse impact on our results of operations and net income per share. We rely heavily on stock options to compensate existing employees and to attract new employees. If we reduce or alter our use of stock-based compensation to minimize the recognition of these expenses, our ability to recruit, motivate and retain employees may be impaired, which could put us at a competitive disadvantage in the employee marketplace. In order to prevent any net decrease in their overall compensation packages, we may choose to make corresponding increases in the cash compensation or other incentives we pay to existing and new employees. Any increases in employee wages and salaries would diminish our cash available for marketing, product development and other uses and might cause our GAAP profits to decline. Any of these effects might cause the market price of our Class B common stock to decline.

Impairment of goodwill and other intangible assets would result in a decrease in earnings.

Current accounting rules require that goodwill and other intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. These rules also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events and circumstances considered in determining whether the carrying value of amortizable intangible assets and goodwill may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; or a significant decline in our stock price and/or market capitalization for a sustained period of time. To the extent such evaluation indicates that the useful lives of intangible assets are different than originally estimated, the amortization period is reduced or extended and, accordingly, the quarterly amortization expense is increased or decreased.

We recorded a substantial non-cash impairment charge for goodwill and intangible assets during the fourth quarter of 2008 as a result of the impact of current adverse economic environment including the deterioration in the equity and credit markets. We may be required to record future charge to earnings in our financial statements during the period in which any additional impairment of our goodwill or amortizable intangible assets is determined. Any impairment charges or changes to the estimated amortization periods could have a material adverse effect on our financial results.

We may not be able to realize the intended and anticipated benefits from our acquisitions of Internet domain names, which could affect the value of these acquisitions to our business and our ability to meet our financial obligations and targets.

We may not be able to realize the intended and anticipated benefits that we currently expect from our acquisitions of Internet domain names. These intended and anticipated benefits include increasing our cash flow from operations, broadening our distribution offerings and delivering services that strengthen our advertiser relationships.

Factors that could affect our ability to achieve these benefits include:

- A significant amount of revenue attributed to our network of Web sites comes through our agreement with Yahoo! and its subsidiaries. Under our agreement, Yahoo! has certain limited exclusive and preferential rights with respect to the commercialization of many of these Web sites through paid listings. Yahoo! controls the delivery of a portion of the paid listings to many of these Web sites. As a result, the monetization of these Web sites is presently largely dependent on the revenue from the paid listings allocated by Yahoo! and its subsidiaries to these Web sites. This allocation may depend on Yahoo! s advertiser base, internal policies in effect from time to time, perceived quality of traffic, origin of traffic, history of performance and conversion, technical and network changes made by Yahoo!, among many factors and determinations which may or may not be controlled by us or known to us. In addition to the aforementioned factors, if our business relationship with Yahoo! is terminated we may not be able to replace it with another large-scale provider of paid listings under terms which allow us to increase or maintain the amount of revenue attributable to our network of Web sites.

- Our revenue will also depend on the levels of traffic that our network of Web sites is able to achieve in any period. Traffic levels will increase and decrease based upon a number of factors not entirely within our control, including the extent of indexing of our Web sites within search engines and directories, placement within search results and success of marketing efforts. Traffic levels may also be affected by service interruptions or other technical outages. Our ability to meet the traffic demands of our network of Web sites is also dependent on a number of third party vendors and our technical teams to manage the operations effectively. Any downtime of our servers or other outages will negatively impact the revenue from our Local Search Network.

Table of Contents

We will need to continue to acquire commercially valuable Internet domain names to grow our proprietary network of Web sites. We will need to continuously improve our technologies to acquire valuable Internet domain names as competition in the marketplace for appropriate Internet domain names intensifies. Our domain name acquisition efforts are subject to rules and guidelines established by registries which maintain Internet domain name registrations and the registrars which process and facilitate Internet domain name registrations. The registries and registrars may change the rules and guidelines for acquiring Internet domains in ways that may prove detrimental to our domain acquisition and/or maintenance efforts.

Some of our existing distribution partners may perceive our Local Search Network as a competitive threat and therefore may decide to terminate their agreements with us.

We intend to apply our technology and expertise to geography-specific Web sites that we believe are under-commercialized and not yet mature from a monetization perspective. However, if the current disparities in traffic and monetization of such search terms do not narrow in a favorable way, we may expend significant company resources on business efforts that do not realize the results we anticipate.

If the acquired assets are not integrated into our business as we anticipate, we may not be able to achieve these benefits or realize the value paid for our acquisitions of Internet domain names, which could materially harm our business, financial condition and results of operations.

We do not control the means by which users access our Web sites, and material changes to current navigation practices or technologies or marketing practices or significant increases in our marketing costs could result in a material adverse effect on our business.

The success of our Local Search Network depends in large part upon consumer access to our Web sites. Consumers access our Web sites primarily through the following methods: directly accessing our Web sites by typing descriptive keywords or keyword strings into the uniform resource locator (URL) address box of an Internet browser; accessing our Web sites by clicking on bookmarked Web sites; and accessing our Web sites through search engines and directories.

Each of these methods requires the use of a third party product or service, such as an Internet browser or search engine or directory. Internet browsers may provide alternatives to the URL address box to locate Web sites, and search engines may from time to time change and establish rules regarding the indexing and optimization of Web sites. We also market certain Web sites through search engines. Historically, we have limited our search engine marketing to less than five leading search engines.

Product developments and market practices for these means of access to our Web sites are not within our control. We may experience a decline in traffic to our Web sites if third party browser technologies or search engine methodologies and rules are changed to our disadvantage. We have experienced abrupt search engine algorithm and policy changes in the past. We expect the search engines we utilize to market and drive users to our Web sites to continue to periodically change their algorithms, policies and technologies. These changes may result in an interruption in users ability to access our Web sites or impair our ability to maintain and grow the number of users who visit our Web sites. We may also be forced to significantly increase marketing expenditures in the event that market prices for online advertising and paid-listings escalate. Any of these changes could have a material adverse effect on our business.

We may experience unforeseen liabilities in connection with our acquisitions of Internet domain names or arising out of third party domain names included in our distribution network, which could negatively impact our financial results.

The Name Development, Pike Street and AreaConnect asset acquisitions involved the acquisition of a large number of previously-owned Internet domain names. Furthermore, we have separately acquired and intend to continue to acquire in the future additional previously-owned Internet domain names. In some cases, these acquired names may have trademark significance that is not readily apparent to us or is not identified by us in the bulk purchasing process. As a result we may face demands by third party trademark owners asserting infringement or dilution of their rights and seeking transfer of acquired Internet domain names under the Uniform Domain Name Dispute Resolution Policy administered by ICANN or actions under the U.S. Anti-Cybersquatting Consumer Protection Act. Additionally, we display paid listings on third party domain names and third party Web sites that are part of our distribution network, which also could subject us to a wide variety of civil claims including intellectual property ownership and infringement.

We intend to review each claim or demand which may arise from time to time on its merits on a case-by-case basis with the assistance of counsel and we intend to transfer any rights acquired by us to any party that has demonstrated a valid prior right or claim. We cannot, however, guarantee that we will be able to resolve these disputes without litigation. The potential violation of third party intellectual property rights and potential causes of action under consumer protection laws may subject us to unforeseen liabilities including injunctions and judgments for money damages.

Table of Contents

Risks Relating to Our Business and Our Industry

If we are unable to compete in the highly competitive performance-based advertising and search marketing industries, we may experience reduced demand for our products and services.

We operate in a highly competitive and changing environment. We principally compete with other companies which offer services in the following areas:

- sales to advertisers of pay-per-click services;
- sales to advertisers of feed management services;
- aggregation or optimization of online advertising for distribution through search engines, product shopping engines, directories, Web sites or other outlets;
- provision of local and vertical Web sites containing information and user feedback designed to attract users and help consumers make better, more informed local decisions, while providing targeted advertising inventory for advertisers;
- delivery of online advertising to end users or customers of advertisers through destination Web sites or other distribution outlets;
- delivery of pay-per-phone call advertising to end users or customers of advertisers through destination Web sites or other distribution outlets;
- local search sales training;
- services and outsourcing of technologies that allow advertisers to manage their advertising campaigns across multiple networks and track the success of these campaigns; and
- third party domain monetization.

Although we currently pursue a strategy that allows us to potentially partner with all relevant companies in the industry, there are certain companies in the industry that may not wish to partner with us. Despite the fact that we currently work with several of our potential competitors, there are no guarantees that these companies will continue to work with us in the future.

We currently or potentially compete with a variety of companies, including Google, IAC/InterActiveCorp, Microsoft, Miva and Yahoo!. Many of these actual or perceived competitors also currently or may in the future have business relationships with us, particularly in distribution. However, such companies may terminate their relationships with us. Furthermore, our competitors may be able to secure agreements with us on more favorable terms, which could reduce the usage of our services, increase the amount payable to our distribution partners, reduce total revenue and thereby have a material adverse effect on our business, operating results and financial condition.

We expect competition to intensify in the future because current and new competitors can enter our market with little difficulty. The barriers to entering our market are relatively low. In fact, many current Internet and media companies presently have the technical capabilities and advertiser bases to enter the search marketing services industry. Further, if the consolidation trend continues among the larger media and search engine companies with greater brand recognition, the share of the market remaining for smaller search marketing services providers could decrease, even though the number of smaller providers could continue to increase. These factors could adversely affect our competitive position in the search marketing services industry.

Some of our competitors, as well as potential entrants into our market, may be better positioned to succeed in this market. They may have:

- longer operating histories;
- more management experience;
- an employee base with more extensive experience;
- better geographic coverage;
- larger customer bases;
- greater brand recognition; and
- significantly greater financial, marketing and other resources.

Currently, and in the future, as the use of the Internet and other online services increases, there will likely be larger, more well-established and well-financed entities that acquire companies and/or invest in or form joint ventures in categories or countries of interest to us, all of which could adversely impact our business. Any of these trends could increase competition and reduce the demand for any of our services.

Table of Contents

We face competition from traditional media companies, and we may not be included in the advertising budgets of large advertisers, which could harm our operating results.

In addition to Internet companies, we face competition from companies that offer traditional media advertising opportunities. Most large advertisers have set advertising budgets, a very small portion of which is allocated to Internet advertising. We expect that large advertisers will continue to focus most of their advertising efforts on traditional media. If we fail to convince these companies to spend a portion of their advertising budgets with us, or if our existing advertisers reduce the amount they spend on our programs, our operating results would be harmed.

If we are not able to respond to the rapid technological change characteristic of our industry, our products and services may cease to be competitive.

The market for our products and services is characterized by rapid change in business models and technological infrastructure, and we will need to constantly adapt to changing markets and technologies to provide new and competitive products and services. If we are unable to ensure that our users, advertisers, and distribution partners have a high-quality experience with our products and services, then they may become dissatisfied and move to competitors products and services. Accordingly, our future success will depend, in part, upon our ability to develop and offer competitive products and services for both our target market and for applications in new markets. We may not, however, be able to successfully do so, and our competitors may develop innovations that render our products and services obsolete or uncompetitive.

Our technical systems are vulnerable to interruption and damage that may be costly and time-consuming to resolve and may harm our business and reputation.

A disaster could interrupt our services for an indeterminate length of time and severely damage our business, prospects, financial condition and results of operations. Our systems and operations are vulnerable to damage or interruption from:

- fire;
- floods;
- network failure;
- hardware failure;
- software failure;
- power loss;
- telecommunications failures;
- break-ins;
- terrorism, war or sabotage;

- computer viruses;
- denial of service attacks;
- penetration of our network by unauthorized computer users and hackers and other similar events;
- natural disaster; and
- other unanticipated problems.

We may not have developed or implemented adequate protections or safeguards to overcome any of these events. We also may not have anticipated or addressed many of the potential events that could threaten or undermine our technology network. Any of these occurrences could cause material interruptions or delays in our business, result in the loss of data or render us unable to provide services to our customers. In addition, if a person is able to circumvent our security measures, he or she could destroy or misappropriate valuable information or disrupt our operations. We have deployed firewall hardware intended to thwart hacker attacks. Although we maintain property insurance and business interruption insurance, our insurance may not be adequate to compensate us for all losses that may occur as a result of a catastrophic system failure or other loss, and our insurers may not be able or may decline to do so for a variety of reasons.

If we fail to address these issues in a timely manner, we may lose the confidence of our advertisers and distribution partners, our revenue may decline and our business could suffer. In addition, as we expand our service offerings and enter into new business areas, we may be required to significantly modify and expand our software and technology platform. If we fail to accomplish these tasks in a timely manner, our business and reputation will likely suffer.

Table of Contents

We rely on third party technology, platforms, carriers, communications providers, and server and hardware providers, and a failure of service by these providers could adversely affect our business and reputation.

We rely upon third party colocation providers to host our main servers. If these providers are unable to handle current or higher volumes of use, experience any interruption in operations or cease operations for any reason or if we are unable to agree on satisfactory terms for continued hosting relationships, we would be forced to enter into a relationship with other service providers or assume hosting responsibilities ourselves. If we are forced to switch hosting facilities, we may not be successful in finding an alternative service provider on acceptable terms or in hosting the computer servers ourselves. We may also be limited in our remedies against these providers in the event of a failure of service. In the past, we have experienced short-term outages in the service maintained by one of our colocation providers.

We also rely on a select group of third party providers for components of our technology platform and support for our advertising and call-based services, such as hardware and software providers, telephone carriers and communications providers, credit card processors and domain name registrars. As a result, key operational resources of our business are concentrated with a limited number of third party providers. A failure or limitation of service or available capacity by any of these third party providers could adversely affect our business and reputation. Furthermore, if any of these significant providers are unable to provide the levels of service and dedicated resources over time that we required in our business, we may not be able to replace certain of these providers in a manner that is efficient, cost-effective or satisfactory to our customers, and as a result our business could be materially and adversely affected.

We may not be able to protect our intellectual property rights, which could result in our competitors marketing competing products and services utilizing our intellectual property and could adversely affect our competitive position.

Our success and ability to compete effectively are substantially dependent upon our internally developed and acquired technology and data resources, which we protect through a combination of copyright, trade secret, and patent and trademark law. To date, we acquired U.S. Patent Number 6,822,663 titled Transform Rule Generator for Web-Based Markup Languages through our Voice Services transaction. We also own nonprovisional U.S. Patent Application Number 10/947,384 titled Performance-Based Online Advertising System and Method, nonprovisional U.S. Patent Application Number 10/992,366 titled Online Advertising System and Method, nonprovisional U.S. Patent Application Number 11/868,398 titled System and Method for Classifying Search Queries and nonprovisional U.S. Patent Application Number 11/985,188 titled Method and System for Tracking Telephone Calls. In the future, additional patents may be filed with respect to internally developed or acquired technologies. Our industry is highly competitive and many individuals and companies have sought to patent processes in the industry. We may decide not to protect certain intellectual properties or business methods which may later turn out to be significant to us. In addition, the patent process takes several years and involves considerable expense. Further, patent applications and patent positions in our industry are highly uncertain and involve complex legal and factual questions due in part to the number of competing technologies. As a result, we may not be able to successfully prosecute these patents, in whole or in part, or any additional patent filings that we may make in the future. We also depend on our trademarks, trade names and domain names. We may not be able to adequately protect our technology and data resources. In addition, intellectual property laws vary from country to country, and it may be more difficult to protect our intellectual property in some foreign jurisdictions in which we may plan to enter. If we fail to obtain and maintain patent or other intellectual property protection for our technology, our competitors could market competing products and services utilizing our technology.

Despite our efforts to protect our proprietary rights, unauthorized parties domestically and internationally may attempt to copy or otherwise obtain and use our services, technology and other intellectual property. We cannot be certain that the steps we have taken will prevent any misappropriation or confusion among consumers and advertisers. If we are unable to protect our intellectual property rights from unauthorized use, our competitive position could be adversely affected.

We may be involved in lawsuits to protect or enforce our patents, which could be expensive and time consuming.

We may initiate patent litigation against third parties to protect or enforce our patent rights, and we may be similarly sued by others. We may also become subject to interference proceedings conducted in the patent and trademark offices of various countries to determine the priority of inventions. The defense and prosecution, if necessary, of intellectual property suits, interference proceedings and related legal and administrative proceedings is costly and may divert our technical and management personnel from their normal responsibilities. We may not prevail in any of these suits. An adverse determination of any litigation or defense proceedings could put our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not being issued.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, during the course of this kind of litigation, there could be public announcements of the results of hearings, motions or other interim proceedings or developments in the litigation. If securities analysts or investors perceive these results to be negative, it could have an adverse effect on the trading price of our Class B common stock.

Table of Contents

Our quarterly results of operations might fluctuate due to seasonality, which could adversely affect our growth rate and in turn the market price of our securities.

Our quarterly results have fluctuated in the past and may fluctuate in the future due to seasonal fluctuations in the level of Internet usage. As is typical in our industry, the second and third quarters of the calendar year generally experience relatively lower usage than the first and fourth quarters. It is generally understood that during the spring and summer months of the year, Internet usage is lower than during other times of the year, especially in comparison to the fourth quarter of the calendar year. The extent to which usage may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage during these periods may adversely affect our growth rate and in turn the market price of our securities. Additionally, the current deterioration in the economic conditions has resulted in many advertisers and resellers reducing advertising and marketing services budgets, which we expect will impact our quarterly results of operations in addition to the typical seasonality seen in our industry.

We are susceptible to general economic conditions, and a downturn in advertising and marketing spending by advertisers could adversely affect our operating results.

Our operating results will be subject to fluctuations based on general economic conditions, in particular those conditions that impact advertiser-consumer transactions. Recent disruptions in the global financial markets and the resulting deterioration in economic conditions has caused and could cause additional decreases in or delays in advertising spending and is likely to reduce and/or negatively impact our short term ability to grow our revenues. Further, any decreased collectability of accounts receivable or early termination of agreements due to the current deterioration in economic conditions could negatively impact our results of operations.

We depend on the growth of the Internet and Internet infrastructure for our future growth and any decrease in growth or anticipated growth in Internet usage could adversely affect our business prospects.

Our future revenue and profits, if any, depend upon the continued widespread use of the Internet as an effective commercial and business medium. Factors which could reduce the widespread use of the Internet include:

- possible disruptions or other damage to the Internet or telecommunications infrastructure;
- failure of the individual networking infrastructures of our advertisers and distribution partners to alleviate potential overloading and delayed response times;
- a decision by advertisers and consumers to spend more of their marketing dollars on offline programs;
- increased governmental regulation and taxation; and
- actual or perceived lack of security or privacy protection.

In particular, concerns over the security of transactions conducted on the Internet and the privacy of users, including the risk of identity theft, may inhibit the growth of Internet usage, especially online commercial transactions. In order for the online commerce market to develop successfully, we and other market participants must be able to transmit confidential information, including credit card information, securely over public networks. Any decrease in anticipated Internet growth and usage could have a material adverse effect on our business prospects.

We are exposed to risks associated with credit card fraud and credit payment, and we may continue to suffer losses as a result of fraudulent data or payment failure by advertisers.

We have suffered losses and may continue to suffer losses as a result of payments made with fraudulent credit card data. Our failure to control fraudulent credit card transactions adequately could reduce our net revenue and gross margin and negatively impact our standing with applicable credit card authorization agencies. In addition, under limited circumstances, we extend credit to advertisers who may default on their accounts payable to us or fraudulently charge-back amounts on their credit cards for services that have already been delivered by us.

Government regulation of the Internet may adversely affect our business and operating results.

Online search, e-commerce and related businesses face uncertainty related to future government regulation of the Internet through the application of new or existing federal, state and international laws. Due to the rapid growth and widespread use of the Internet, legislatures at the federal and state level have enacted and may continue to enact various laws and regulations relating to the Internet. Individual states may also enact consumer protection laws that are more restrictive than the ones that already exist.

Table of Contents

Furthermore, the application of existing laws and regulations to Internet companies remains somewhat unclear. For example, as a result of the actions of advertisers in our network, we may be subject to existing laws and regulations relating to a wide variety of issues such as consumer privacy, gambling, sweepstakes, advertising, promotions, defamation, pricing, taxation, financial market regulation, quality of products and services, computer trespass, spyware, adware, child protection and intellectual property ownership and infringement. In addition, it is not clear whether existing laws that require licenses or permits for certain of our advertisers lines of business apply to us, including those related to insurance and securities brokerage, law offices and pharmacies. Existing federal and state laws that may impact the growth and profitability of our business include, among others:

- the Digital Millennium Copyright Act (DMCA) provides protection from copyright liability for online service providers that list or link to third party Web sites. We currently qualify for the safe harbor under the DMCA, however, if it were determined that we did not meet the safe harbor requirements, we could be exposed to copyright infringement litigation, which could be costly and time-consuming.

- the Children s Online Privacy Protection Act (COPPA) restricts the distribution of certain materials deemed harmful to children and impose limitations on the Web sites ability to collect personal information from minors. COPPA allows the Federal Trade Commission (FTC) to impose fines and penalties upon Web site operators whose sites do not fully comply with the law s requirements. Another child protection law, the Child Online Protection Act (COPA), was intended to restrict the distribution of certain materials deemed harmful to children. This law was struck down as unconstitutional, but a similar federal or state law might be reintroduced in the future.

- the Protection of Children from Sexual Predators Act requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances.

- the Controlling the Assault of Non-Solicited Pornography and Marketing (CAN SPAM) Act of 2003 establishes requirements for those who send commercial e-mail, spells out penalties for entities that transmit noncompliant commercial e-mail and/or whose products are advertised in noncompliant commercial e-mail and gives consumers the right to opt-out of receiving commercial e-mails. The FTC is authorized to enforce the CAN SPAM Act. This law also gives the Department of Justice the authority to enforce its criminal sanctions. Other federal and state agencies can enforce the law against organizations under their jurisdiction, and companies that provide Internet access may sue violators as well.

- the Electronic Communications Privacy Act prevents private entities from disclosing Internet subscriber records and the contents of electronic communications, subject to certain exceptions.

- the Computer Fraud and Abuse Act and other federal and state laws protect computer users from unauthorized computer access/hacking, and other actions by third parties which may be viewed as a violation of privacy. Michigan and Utah child protection laws, designed to protect children under the age of 18 from receiving adult content via e-mail and other electronic forms of communication (e.g., cell phones and IM). Both Michigan and Utah have developed lists of minors e-mail addresses based on parents and guardians submissions. Once an address has been on a list for 30 days, Web publishers are prohibited from sending the address anything containing, or even linking to, advertising for a product or service that a minor is legally prohibited from purchasing or using, even if the owner of that address previously requested to receive the information. In addition, senders need to match their own mailing lists against the state registries on at least a monthly basis, for which they must pay both Michigan and Utah a per-address fee.

Courts may apply each of these laws in unintended and unexpected ways. As a company that provides services over the Internet, we may be subject to an action brought under any of these or future laws governing online services. Among the types of legislation currently being considered at the federal and state levels are consumer laws regulating for the use of certain types of software applications or downloads and the use of cookies. These proposed laws are intended to target specific types of software applications often referred to as spyware, invasiveware or adware, although they may also cover certain applications currently used in the online advertising industry to serve and distribute advertisements. Thus, if passed, these laws would impose new obligations for companies that use such software applications or technologies.

Many Internet services are automated, and companies such as ours may be unknowing conduits for illegal or prohibited materials. It is possible that some courts may impose a strict liability standard or require such companies to monitor their customers conduct. Although we would not be responsible or involved in any way in such illegal conduct, it is possible that we would somehow be held responsible for the actions of our advertisers or distribution partners.

We may also be subject to costs and liabilities with respect to privacy issues. Several Internet companies have incurred penalties for failing to abide by the representations made in their privacy policies. In addition, several states have adopted legislation that requires businesses to implement and maintain reasonable security procedures and practices to protect sensitive personal information and to provide notice to consumers in the event of a security breach. Further, it is anticipated that additional federal and state privacy-related legislation will be enacted. Such legislation could negatively affect our business.

Table of Contents

In addition, foreign governments may pass laws which could negatively impact our business and/or may prosecute us for violating existing laws. Such laws might include EU member country conforming legislation under applicable EU Privacy and Data Protection Directives. Any costs incurred in addressing foreign laws could negatively affect the viability of our business.

Federal and state regulation of telecommunications may adversely affect our business and operating results.

Subsidiaries of the Company provide information and analytics services to certain advertisers and aggregators that may include the enhanced transmission of voice services. In connection therewith, the Company, through its subsidiaries, obtains certain telecommunications products and services from carriers in order to deliver these packages of information and analytic services.

Although the Company believes that these information and analytics services in the form provided by the Company are not currently subject to federal and state telecommunications laws and regulations, those laws and regulations (and interpretations thereof) are evolving in response to rapid changes in the telecommunications industry. Nonetheless, if our carrier vendors were to be subject to any changes in applicable law or regulation (or interpretations thereof), then we in turn may be subject to increased costs for their products and services or receive products and services that may be of less value to our customers, which in turn could adversely affect our business and operating results. Furthermore, in the event that any federal or state regulators were to expand the scope of the applicable law and regulation or their application to include the businesses or certain endusers and information service providers, then our business and operating results could also be adversely affected.

The following existing federal and state laws could impact the growth and profitability of our business if changed or interpreted to be applicable to our business:

The Communications Act of 1934, as amended by the Telecommunications Act of 1996 (the Act), and the regulations promulgated by the Federal Communications Commission under Title II of the Act, may impose federal licensing, reporting and other regulatory obligations on the Company.

The Communications Assistance for Law Enforcement Act may require that the Company undertake material modifications to its platforms and processes to permit wiretapping and other access for law enforcement personnel.

Under various Orders of the Federal Communications Commission, including its Report and Order and Further Notice of Proposed Rulemaking in Docket Number WC 04-36, dated June 27, 2006, the Company may be required to make material retroactive and prospective contributions to funds intended to support Universal Service, Telecommunications Relay Service, Local Number Portability, the North American Numbering Plan and the budget of the Federal Communications Commission.

Laws in most states of the United States of America may require registration or licensing of one or more subsidiaries of the Company, and may impose additional taxes, fees or telecommunications surcharges on the provision of the Company s services which the Company may not be able to pass through to customers.

Future regulation of search engines may adversely affect the commercial utility of our search marketing services.

The FTC has reviewed the way in which search engines disclose paid placements or paid inclusion practices to Internet users. In 2002, the FTC issued guidance recommending that all search engine companies ensure that all paid search results are clearly distinguished from non-paid results, that the use of paid inclusion is clearly and conspicuously explained and disclosed and that other disclosures are made to avoid misleading users about the possible effects of paid placement or paid inclusion listings on search results. Such disclosures if ultimately mandated by the FTC or voluntarily made by us may reduce the desirability of our paid placement and paid inclusion services. We believe that some users will conclude that paid search results are not subject to the same relevancy requirements as non-paid search results, and will view paid search results less favorably. If such FTC disclosure reduces the desirability of our paid placement and paid inclusion services, and click-throughs of our paid search results decrease, our business could be adversely affected.

State and local governments may in the future be permitted to levy additional taxes on Internet access and electronic commerce transactions, which could result in a decrease in the level of usage of our services. In addition, we may be required to pay additional income, sales, or other taxes.

On November 19, 2004, the federal government passed legislation placing a three-year ban on state and local governments imposition of new taxes on Internet access or electronic commerce transactions. On October 31, 2007, this ban was extended for another seven years. Unless the ban is further extended, state and local governments may begin to levy additional taxes on Internet access and electronic commerce transactions upon the legislation s expiration in November 2014. An increase in taxes may make electronic commerce transactions less attractive for advertisers and businesses, which could result in a decrease in the level of usage of our services. Additionally, from time to time, various state, federal and other jurisdictional tax authorities undertake reviews of the Company and the Company s filings. In evaluating the exposure associated with various tax filing positions, the Company on occasion accrues charges for probable exposures. We cannot predict the outcome of any of these reviews.

Table of Contents

Risks Relating to Ownership of our Common Stock

Our Class B common prices have been and are likely to continue to be highly volatile.

The trading prices of our Class B common stock have been and are likely to continue to be highly volatile and subject to wide fluctuations. Since our initial public offering, the closing sale price of our Class B common stock on the Nasdaq Global Market (formerly, the Nasdaq National Market) ranged from $3.00 to $26.14 per share through June 30, 2009. Our stock prices may fluctuate in response to a number of events and factors, which may be the result of our business strategy or events beyond our control, including:

- developments concerning proprietary rights, including patents, by us or a competitor;
- announcements by us or our competitors of significant contracts, acquisitions, financings, commercial relationships, joint ventures or capital commitments;
- registration of additional shares of Class B common stock in connection with acquisitions;
- actual or anticipated fluctuations in our operating results;
- developments concerning our various strategic collaborations;
- lawsuits initiated against us or lawsuits initiated by us;
- announcements of acquisitions or technical innovations;
- potential loss or reduced contributions from distribution partners or advertisers;
- changes in earnings estimates or recommendations by analysts;
- changes in the market valuations of similar companies;
- changes in our industry and the overall economic environment;
- volume of shares of Class B common stock available for public sale, including upon conversion of Class A common stock or upon exercise of stock options;
- Class B common stock repurchases under our previously announced share repurchase program;

sales and purchases of stock by us or by our stockholders, including sales by certain of our executive officers and directors pursuant to written pre-determined selling and purchase plans under Rule 10b5-1 of the Securities Exchange Act of 1934; and

short sales, hedging and other derivative transactions on shares of our Class B common stock.

In addition, the stock market in general, and the Nasdaq Global Market and the market for online commerce companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the listed companies. These broad market and industry factors may seriously harm the market price of our Class B common stock, regardless of our operating performance. In the past, following periods of volatility in the market, securities class action litigation has often been instituted against these companies.

Litigation against us, whether or not judgment is entered against us, could result in substantial costs and potentially economic loss, and a diversion of our management s attention and resources, any of which could seriously harm our financial condition. Additionally, there can be no assurance that an active trading market of our Class B common stock will be sustained.

Our founding executive officers control the outcome of stockholder voting, and there may be an adverse effect on the price of our Class B common stock due to the disparate voting rights of our Class A common stock and our Class B common stock.

As of June 30, 2009, Russell C. Horowitz, Ethan A. Caldwell, Peter Christothoulou and John Keister, our founding executive officers control 92% of the combined voting power of all outstanding shares of our capital stock primarily through their ownership of 100% of the outstanding shares of our Class A common stock. The holders of our Class A common stock and Class B common stock have identical rights except that the holders of our Class B common stock are entitled to one vote per share, while holders of our Class A common stock are entitled to twenty-five votes per share on all matters to be voted on by stockholders. This concentration of control could be disadvantageous to our other stockholders with interests different from those of these founding executive officers. This difference in the voting rights of our Class A common stock and Class B common stock could adversely affect the price of our Class B common stock to the extent that investors or any potential future purchaser of our shares of Class B common stock give greater value to the superior voting rights of our Class A common stock.

Table of Contents

Further, as long as these founding executive officers have a controlling interest, they will continue to be able to elect all or a majority of our board of directors and generally be able to determine the outcome of all corporate actions requiring stockholder approval. As a result, these founding executive officers will be in a position to continue to control all fundamental matters affecting our company, including any merger involving, sale of substantially all of the assets of, or change in control of, our company. The ability of these founding executive officers to control our company may result in our Class B common stock trading at a price lower than the price at which such stock would trade if these founding executive officers did not have a controlling interest in us. This control may deter or prevent a third party from acquiring us which could adversely affect the market price of our Class B common stock.

Anti-takeover provisions may limit the ability of another party to acquire us, which could cause our stock price to decline.

Our certificate of incorporation, as amended, our by-laws and Delaware law contain provisions that could discourage, delay or prevent a third party from acquiring us, even if doing so may be beneficial to our stockholders. In addition, these provisions could limit the price investors would be willing to pay in the future for shares of our Class B common stock. The following are examples of such provisions in our certificate of incorporation, as amended, or our by-laws:

- the authorized number of our directors can be changed only by a resolution of our board of directors;

- advance notice is required for proposals that can be acted upon at stockholder meetings;

- there are limitations on who may call stockholder meetings; and

- our board of directors is authorized, without prior stockholder approval, to create and issue blank check preferred stock.

We are also subject to Section 203 of the Delaware General Corporation Law, which provides, subject to enumerated exceptions, that if a person acquires 15% or more of our voting stock, the person is an interested stockholder and may not engage in business combinations with us for a period of three years from the time the person acquired 15% or more of our voting stock. The application of Section 203 of the Delaware General Corporation Law could have the effect of delaying or preventing a change of control of our company.

We may not be able to continue to pay dividends on our common stock in the future which could impair the value of such stock.

Under Delaware law, dividends to stockholders may be made only from the surplus of a company, or, in certain situations, from the net profits for the current fiscal year or the fiscal year before which the dividend is declared. We have initiated and paid a quarterly dividend on our common stock since November 2006. However, there is no assurance that we will be able to pay dividends in the future. Our ability to pay dividends in the future will depend on our financial results, liquidity and financial condition.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the second quarter of 2009, share repurchase activity was as follows:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares (or approximate dollar value) that may yet be purchased under the plans or programs (1)
April 1, 2009 April 30, 2009	245,978	$ 4.09	245,978	1,158,050
May 1, 2009 May 31, 2009				1,158,050
June 1, 2009 June 30, 2009	5,750(2)	$ 0.01		1,158,050
Total Class B Common Shares	251,728	$ 4.00	245,978	1,158,050

(1) In November 2006, the Company s board of directors authorized a share repurchase program for the Company to repurchase up to 3 million shares of the Company s Class B common stock. The Company s board of directors have authorized increases to the share repurchase program for the Company to repurchase up to 9 million shares in the aggregate (less shares previously repurchased under the share repurchase program) of the Company s Class B common stock. Under the share repurchase program, repurchases may take place in the open market and in privately negotiated transactions and at times and in such amounts as the Company deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, capital availability, and other market conditions. This stock repurchase program does not have an expiration date and may be limited or terminated at any time without prior notice.

(2) Includes 5,750 shares of restricted equity subject to vesting which were issued to a board member. The Company repurchased the shares which were not already vested upon such individual s resignation from the board in June of 2009.

Item 4. Submission of Matters to a Vote of Security Holders

On May 8, 2009, the Company held its Annual Meeting of Stockholders. At the meeting, the stockholders elected as directors Russell C. Horowitz (with shares representing 293,062,039 votes voting for and 243,947 votes withheld), Dennis Cline (with shares representing 292,073,719 votes voting for and 1,232,267 votes withheld), Anne Devereux (with shares representing 293,081,221 votes voting for and 224,765 votes withheld), Jonathan Fram (with shares representing 292,077,437 votes voting for and 1,228,549 withheld), Nicolas Hanauer (with shares representing 293,080,614 votes voting for and 225,372 withheld), John Keister (with shares representing 293,068,991 votes voting for and 236,995 votes withheld) and M. Wayne Wisehart (with shares representing 292,076,637 votes voting for and 1,229,349 withheld).

The stockholders also ratified the appointment of KPMG LLP as the independent registered public accounting firm for the Company for the fiscal year ending December 31, 2009 (with shares representing 292,243,054 votes voting for 1,052,311 votes against and 10,621 votes abstaining).

Item 6. Exhibits

Exhibits:

*	10.28	Form of Retention Agreement Amendment.
*	10.29	Revised Form of Retention Agreement.
*	10.30	Form of Restricted Stock Agreement Amendment.
*	10.31	First Amendment to Executive Employment Agreement effective as of May 8, 2009, by and between Michael A. Arends and the Registrant.

*	10.32	Revised Form of Executive Restricted Stock Agreement.
*	10.33	Form of Director Restricted Stock Agreement.
	10.34	Amended and Restated Lease effective as of June 5, 2009, between 520 Pike Street, Inc. and the Registrant.

Table of Contents

31(i)	Certification of CEO pursuant to Rule 13a-14(a)/15(d)-14(a).
31(ii)	Certification of CFO pursuant to Rule 13a-14(a)/15d-14(a).
32.1	Certification of CEO pursuant to Section 1350.
32.2	Certification of CFO pursuant to Section 1350.

* Management contract or compensatory plan or arrangement.
Filed herewith.
Furnished herewith.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MARCHEX, INC.

By:	/s/ Michael A. Arends
Name:	**Michael A. Arends**
Title:	**Chief Financial Officer**
	(Principal Accounting Officer)

August 7, 2009