



## Marchex Reports Second Quarter 2007 Financial Results

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Marchex, Inc. (NASDAQ: MCHX, MCHXP) today reported its results for the second quarter ended June 30, 2007.

### CONSOLIDATED FINANCIAL RESULTS:

- Revenue was \$34.7 million for the second quarter of 2007, a 9% increase compared to \$31.7 million for the same period of 2006.
- GAAP net income applicable to common stockholders was \$354,000 for the second quarter of 2007 or \$0.01 per share. This compares to GAAP net loss applicable to common stockholders of \$612,000 or \$0.02 per share for the same period of 2006. The second quarter 2007 results included non-cash stock-based compensation expense recorded under the fair value method of \$2.3 million, compared to non-cash stock-based compensation expense of \$3.4 million for the same period in 2006.
- We provide a reconciliation of GAAP EPS to Adjusted Non-GAAP EPS in the last financial tables attached to this press release and encourage investors to examine the reconciling adjustments between the GAAP and non-GAAP measures. Adjusted non-GAAP EPS for the second quarter of 2007 was \$0.10, compared to \$0.12 for the same period of 2006. Some Wall Street analysts use non-GAAP measures to analyze our operating results, which may include adjusted non-GAAP EPS, adjusted operating income before amortization and adjusted EBITDA. We present GAAP measures with equal or greater prominence than non-GAAP measures and such non-GAAP measures should not be considered a substitute for, or superior to, GAAP results.
- Adjusted operating income before amortization was \$6.4 million for the second quarter of 2007, which is a decrease of 23% compared to \$8.3 million for the same period of 2006. A reconciliation of non-GAAP adjusted operating income before amortization to GAAP operating income and GAAP net income is attached to the financial tables included in this release.
- Adjusted EBITDA was \$8.6 million in the second quarter of 2007, compared to \$9.7 million for the same period of 2006. A reconciliation of operating income before taxes, depreciation, amortization and gain/loss on sales of intangible assets to GAAP net cash provided by operating activities is attached to the financial tables included in this release.

Marchex's second quarter results were impacted by the following:

- Adjusted operating income before amortization and adjusted EBITDA were impacted by Marchex's decision to accelerate the investment in its advertising services platform for local advertisers by \$600,000 to support its largest aggregator partners. Marchex believes this incremental investment will help accelerate the rate at which it is adding advertisers as well as adding competitive product features and further scalability to its local advertising platform. Adjusted operating income before amortization was also impacted by the increase of approximately \$300,000 of amortization costs associated with the Spanish language Web site acquisitions, which was referenced by the company at the time of their acquisition. This item did not affect adjusted EBITDA; and
- Datacenter outages, which resulted in a decrease of \$500,000 to revenue and adjusted operating income before amortization to Marchex's proprietary traffic sources. These outages were not anticipated and Marchex views them as non-recurring.

"Aside from the reconciling items we have noted today, the second quarter's financial results were largely in the range of our expectations," said Russell C. Horowitz, Marchex Chairman and Chief Executive Officer. "Operationally, we are excited that we achieved significant product milestones during the second quarter and that Marchex's various initiatives over the last three years are now converging around a tremendous opportunity in the local space. With the launch of 100,000 locally targeted sites, Marchex has one of the largest online local consumer networks, where we help millions of users make locally focused purchasing decisions. In addition, Marchex has what we believe is the industry's most sophisticated local advertising platform, offering local advertisers the ability to create, manage, fulfill and report on both search- and call-based advertiser programs at scale. In total, we are going to continue investing in the local opportunity, our greatest area of strength, which means an incremental investment of \$13 million this year. This will help Marchex capitalize on the momentum we are seeing in both our local advertising and consumer-facing initiatives. We believe this investment will support Marchex's position as a local leader while also reducing risks and dependencies. We are committed to delivering the best solutions anywhere for local advertisers and consumers and believe by doing this, we will create the most value for our shareholders."

### MARCHEX FOCUS AND COMMITMENT TO THE ONLINE LOCAL MARKETPLACE:

Over the last three years, Marchex has achieved strength in the local marketplace through building initial critical mass on both the local advertiser side, and the local consumer side. On the local advertiser side, Marchex now has more than 30,000 advertisers, exclusive of VoiceStar, who are using Marchex's advertising technology and services platform to create, manage, fulfill and report against search marketing campaigns. Additionally, based on (i) the combination of new services Marchex will offer, (ii) the number of large local advertiser aggregators leveraging Marchex and VoiceStar

technologies, such as AT&T, The Cobalt Group, and Yellowbook USA, and (iii) the momentum Marchex is currently seeing in new local advertiser sign-ups, Marchex expects that its local advertiser coverage will more than double by the end of 2009. On the local consumer side, Marchex has more than 200,000 Web sites that contain more than one billion pages of targeted local content to help local consumers make better decisions. These Web sites generate tens of millions of visitors for our network and delivered more than 40 million revenue-generating look-ups and referrals in the second quarter.

The industry forecasts for online local advertising growth are very powerful. Today, there are more than 15 million businesses in the U.S. spending more than \$100 billion annually in offline, locally-targeted marketing. Piper Jaffray estimates that over the next ten years, local online advertising spending will grow from \$5 billion to \$25 billion. In addition, Borrell Associates estimates annual growth rates over the next four years as high as 42.8% for local paid search and 12.3% for the entire local Internet ad market. As a result, as these sources indicate, local paid search will drive the paid search and overall online advertising space for years to come.

#### **RECENT HIGHLIGHTS AND UPDATED STATISTICS:**

**VoiceStar Acquisition:** Marchex today announced that it has entered into an agreement to acquire VoiceStar (<http://www.voicestar.com/>), a leader in providing call-based advertising services for local advertisers, such as: as pay-per-phone-call, call-tracking, and other services. VoiceStar is one of the largest providers of call-based advertising services with more than 100 local advertiser aggregators leveraging VoiceStar's products, such as: Comcast, The Cobalt Group, and YellowBook USA. With VoiceStar, Marchex can offer advertisers and aggregator partners a complete text- and call-based advertising platform along with distribution for their advertisements in search engines, vertical Web sites, and on our local Web sites. Marchex plans to make significant investments in pay-per-phone-call going forward to support VoiceStar's expansion as part of Marchex. In order to succeed in serving the local advertising channel, in addition to providing search marketing solutions, Marchex believes that supporting call-based services is a prerequisite and provides the ability to assist those advertisers that already have a Web presence, as well as those who don't.

**Bill Day Hired as Chief Media Officer:** Marchex today announced that it has strengthened its executive team with the addition of Bill Day, who will serve as Marchex's Chief Media Officer and oversee Marchex's media strategy, including the online content, consumer experience and related advertising opportunities. Day is a world-class operator and pioneer in providing vertically focused original content destinations, and in growing media properties at scale, given his experience at About.com, where he co-founded the company and served as President and then CEO. Day grew About.com to a top 20 online global media network that covered more than 700 topics and 50,000 subjects. About.com was, and still is today, used by tens of millions of monthly users to find highly targeted, useful information. In order to build a major consumer-facing network, Marchex believed it was important to bring in someone with deep consumer experience who had run a first tier online media company at scale.

**Yahoo! Renewal:** Marchex today announced an agreement with Yahoo! to extend its existing Web site monetization relationship through June 2009. There were other potential providers who were highly interested in working with Marchex, and who the company also considered during its process. However, based on a number of factors, including Marchex's need for product flexibility, economics, reporting, and other terms, Marchex believed Yahoo! represented the best strategic fit and it looks forward to working closely with Yahoo! on this and other strategic opportunities. Marchex is focused on complementing the Yahoo! relationship with its own advertising initiatives so it may be in a position to be the primary driver of revenue on its Web sites by the end of 2009. Marchex expects this growth will be driven by its expectations of advertiser growth and product innovation, including the roll out of new relevant proprietary ad formats, such as pay-per-phone-call ads.

**Unique Visitors and Revenue Attributable to Proprietary Traffic Sources:** Marchex today announced that its proprietary network of vertical and local Web sites attracted approximately 31 million unique visitors for the month of June 2007. Unique visitor statistics are based on internal traffic logs, which calculate unique IP (Internet protocol) addresses on an unduplicated basis during a given month. For the second quarter of 2007, revenue attributable to proprietary traffic sources was \$13.5 million.

**Local Consumer Network:** Marchex's consumer network of Web sites delivered more than 40 million look-ups and referrals in the second quarter, which are defined as revenue-generating business searches on primary proprietary sites such as Yellow.com and Openlist.com and referral clicks on advertisement listings on our proprietary Web sites such as [www.bostonmortgage.com](http://www.bostonmortgage.com). Marchex believes that metrics like this will significantly expand over the next 24 months based on increased traffic and usage levels at its Web sites, including the upcoming re-launch of [openlist.com](http://www.openlist.com) in September.

**Local Consumer Products:** In late June, Marchex launched more than 100,000 of its local and vertical Web sites leveraging its Open List technology to publish more than one billion Web pages of locally-targeted content, features and functionality for consumers looking for local services and information online, along with highly targeted local advertising inventory. These Open List-powered Web sites have received very positive feedback from users and the early metrics point toward positive revenue and page view growth. The newly launched sites feature more than 15 million business listings across all major yellow pages categories, a deep refinement system, user-generated reviews and ratings, and third-party expert reviews. The Web sites include tens of thousands of vertical, local and local-vertical Web sites, such as <http://www.cuisine.com/>, <http://www.locksmiths.com/> and <http://www.remodeling.com/>; <http://www.bayareahotels.com/>, <http://www.newyorkdoctors.com/>, and <http://www.denverautorepair.com/>; and Marchex's ZIP Code Web sites, which cover 96% of all ZIP Code areas nationwide, such as <http://www.90210.com/>.

**Spanish-Language Web site Development Alliance with Fox:** During the quarter Marchex and Fox's Latin American Channels division, a wholly owned subsidiary of News Corporation, announced a partnership to jointly develop a set of Spanish-language Web sites owned by Marchex, including [cocina.com](http://www.cocina.com) (English translation is "Kitchen" or "Cook"), [fotos.com](http://www.fotos.com) (Photos), [futbol.com](http://www.futbol.com) (Soccer), [deportes.com](http://www.deportes.com) (Sports), [mascotas.com](http://www.mascotas.com) (Pets), [mujer.com](http://www.mujer.com) (Woman), [peliculas.com](http://www.peliculas.com) (Movies), [salud.com](http://www.salud.com) (Health), and [tarjetas.com](http://www.tarjetas.com) (Greeting Cards). Fox will provide localized content and community features to the Web sites including: videos, forums, blogs, personal home pages, and photo albums.

**New Search Marketing Product Relationship:** During the quarter, Marchex announced a new relationship with Yahoo! in which Marchex is sending its direct pay-per-click advertisers into Yahoo! Sponsored Search distribution.

**Stock Buy-Back:** Marchex purchased approximately 44,000 of shares of common stock for approximately \$600,000 in August under the terms of its previously announced stock repurchase program. The company is reviewing the scope of this repurchase program in light of its stock price and prevailing market conditions and anticipates expanding or modifying this program as a result of this review.

#### **MARCHEX FINANCIAL GUIDANCE:**

The following forward-looking statements reflect Marchex's expectations as of August 9, 2007.

**Revenue:** Marchex anticipates 2007 Revenue of \$136 million to \$142 million. Adjustments from our prior guidance of \$144 million to \$150 million are based on:

- a loss of \$500,000 in revenue during the second quarter resulting from the datacenter outages;
- a \$500,000 anticipated revenue increase from the VoiceStar acquisition;
- a \$4 million decrease resulting from an anticipated reduction in Web site marketing;
- a \$4 million decrease in revenue based on our increased direct monetization of our proprietary Web sites and impact from Yahoo!'s quality-based pricing initiatives.

**Adjusted operating income before amortization:** Marchex anticipates 2007 adjusted operating income before amortization of \$21 million to \$25 million. Adjustments from our prior guidance of \$34 million to \$38 million are based on:

- a \$1.1 million decrease in adjusted operating income before amortization from our second quarter results due to the increased investment in our advertising services platform for local advertisers plus datacenter outage impacts;
- the \$4 million increased investment in the accelerated build out of our advertising services platform for local advertisers we provide to partners like AT&T and other aggregator partners, as well as supporting potential new relationships;
- a \$3 million investment in accelerating the product and infrastructure build out for VoiceStar, as well as the initial integration with Marchex's advertising services platform;
- a \$1 million decrease resulting from an anticipated reduction in Web site marketing;
- a \$4 million decrease based on direct monetization of our proprietary Web sites and impact from Yahoo's quality-based pricing initiatives.

**Adjusted EBITDA:** For adjusted EBITDA, Marchex anticipates add-backs of approximately \$8 million in additional depreciation and amortization to its adjusted operating income before amortization range, implying an adjusted EBITDA range of \$29 million to \$33 million. Our prior guidance on add-backs to adjusted operating income before amortization was approximately \$7 million in additional depreciation and amortization.

**Third Quarter 2007:** For color on Marchex's quarterly revenue expectations, given the various new strategic initiatives and impacts, the company currently anticipates that Q3 revenue will be more than \$32.5 million. Regarding quarterly adjusted operating income before amortization, given that Marchex has significantly ramped up our investment in building local marketplace leadership and valuable intellectual property, Marchex currently anticipates that Q3 will be more than \$4 million. Marchex expects adjusted EBITDA to be \$2 million higher than operating income before amortization, given additional depreciation and amortization add-backs, implying more than \$6 million in adjusted EBITDA.

#### **CONFERENCE CALL AND WEBCAST INFORMATION:**

Management will hold a conference call, starting at 5:00 p.m. EDT on Thursday, August 9, 2007 to discuss its second quarter 2007 results and other company updates.

#### **ABOUT MARCHEX, INC.**

Marchex (<http://www.marchex.com/>) is a local online advertising company and leading publisher of local content. Marchex's innovative advertising platform delivers search marketing products and services for local and national advertisers. Marchex's local content network, one of the largest online, helps consumers make better, more informed local decisions through its network of content-rich Web sites that reach tens of millions of unique visitors each month.

#### **FORWARD LOOKING STATEMENTS:**

This press release contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, included in this press release regarding our strategy, future operations, future financial position, future revenues, acquisitions, projected costs, prospects, plans and objectives of management are forward-looking statements. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. There are a number of important factors that could cause Marchex's actual results to differ materially from those indicated by such forward-looking statements which are described in the "Risk Factors" section of our most recent periodic report and registration statement filed with the SEC. In addition, Marchex's acquisition of VoiceStar remains subject to customary closing conditions. All of the information provided in this release is as of August 9, 2007 and Marchex undertakes no duty to update the information provided herein.

#### **NON-GAAP FINANCIAL INFORMATION:**

To supplement Marchex's consolidated financial statements presented in accordance with GAAP and to provide clarity internally and externally, Marchex uses certain non-GAAP measures of financial performance and liquidity, including OIBA, Adjusted OIBA, Adjusted EBITDA and Adjusted non-GAAP EPS. Marchex also provides Pro Forma Revenue information for the three and six months ended June 30, 2006 and 2007 as if the AreaConnect and Open List asset acquisitions in 2006 occurred as of January 1, 2006.

OIBA represents income (loss) from operations plus (1) stock-based compensation expense and (2) amortization of acquired intangible assets. This measure, among other things, is one of the primary metrics by which Marchex evaluates the performance of its business. Additionally, Marchex's management uses Adjusted OIBA which excludes (1) any gain/loss on sales of intangible assets and (2) facility relocation as these are viewed as non-recurring in nature. Adjusted OIBA is the basis on which Marchex's internal budgets are based and by which Marchex's management is currently evaluated. Marchex believes these measures are useful to investors because they represent Marchex's consolidated operating results, taking into account depreciation and other intangible amortization, which Marchex believes is an ongoing cost of doing business, but excluding the effects of certain other non-cash and non-recurring expenses. Adjusted EBITDA represents income before interest, income taxes, depreciation, amortization, stock compensation expense, and gain/loss on sales of intangible assets. Marchex believes that Adjusted EBITDA is another alternative measure of liquidity to GAAP net cash provided by operating activities that provides meaningful supplemental information regarding liquidity and is used by

Marchex's management to measure its ability to fund operations and its financing obligations.

Adjusted non-GAAP EPS represents Adjusted Net Income divided by weighted average fully diluted shares outstanding for Adjusted non-GAAP EPS purposes. Adjusted Net Income generally captures those items on the statement of operations that have been, or ultimately will be, settled in cash exclusive of certain non-recurring items and represents net income (loss) available to common stockholders plus: (1) stock based compensation expense, (2) amortization of acquired intangible assets, (3) gain/loss on sales of intangible assets, (4) other income (expense), (5) the cumulative effect of changes in accounting principles, (6) facility relocation and less (7) discount on preferred stock redemption. Adjusted non-GAAP EPS includes dilution from options and warrants per the treasury stock method, includes the weighted average number of all potential common shares relating to convertible preferred stock and restricted stock and excludes the weighted average common share equivalents for redeemed preferred shares. Shares outstanding for Adjusted non-GAAP EPS purposes are therefore higher than shares outstanding for GAAP EPS purposes. Financial analysts and investors may use Adjusted non-GAAP EPS to analyze Marchex's financial performance since these groups have historically used EPS related measures, along with other measures, to estimate the value of a company, to make informed investment decisions and to evaluate a company's operating performance compared to that of other companies in its industry.

Marchex's management believes that investors should have access to, and Marchex is obligated to provide, the same set of tools that management uses in analyzing the company's results. These non-GAAP measures should be considered in addition to results prepared in accordance with GAAP, and should not be considered in isolation, as a substitute for, or superior to, GAAP results. These non-GAAP terms, as defined by Marchex, may not be comparable to similarly titled measures used by other companies. Marchex endeavors to compensate for the limitations of the non-GAAP measures presented by providing the comparable GAAP measure with equal or greater prominence, GAAP financial statements and detailed descriptions of the reconciling items and adjustments, including quantifying such items, to derive the non-GAAP measure.

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