UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2024

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 **(State or other jurisdiction of incorporation or organization)**	**35-2194038** **(I.R.S. Employer Identification No.)**
1200 5th Ave, Suite 1300 **Seattle, WA** **(Address of Principal Executive Offices)**	**98101** **(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class B Common Stock, $0.01 par value per share	MCHX	The NASDAQ STOCK MARKET LLC (NASDAQ Global Select Market)

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 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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of August 6, 2024, the registrant had 4,660,927 shares of Class A common stock outstanding. The number of shares of Registrant's Class B common stock outstanding as of August 6, 2024 was 39,021,418.

MARCHEX, INC.

Form 10-Q

Table of Contents

PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

MARCHEX, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in thousands)

	December 31, 2023	(unaudited) June 30, 2024
Assets		
Current assets:		
Cash and cash equivalents	$ 14,607	$ 11,977
Accounts receivable, net	7,394	7,636
Prepaid expenses and other current assets	1,805	2,874
Total current assets	23,806	22,487
Property and equipment, net	2,398	1,861
Other assets, net	1,482	1,900
Right-of-use lease asset	1,631	1,397
Goodwill	17,558	17,558
Intangible assets from acquisitions, net	602	301
Total assets	$ 47,477	$ 45,504
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,533	$ 1,921
Accrued benefits and payroll	3,294	2,138
Other accrued expenses and current liabilities	3,217	3,454
Deferred revenue and deposits	1,214	1,470
Lease liability current	462	486
Total current liabilities	9,720	9,469
Deferred tax liabilities	249	278
Finance lease, non-current	421	256
Lease liability, non-current	1,217	967
Total liabilities	$ 11,607	$ 10,970
Commitments and contingencies - See Note 10		
Stockholders' equity:		
Common stock, $0.01 par value. Authorized 137,500 shares		
Class A: 12,500 shares authorized; 4,661 shares issued and outstanding at December 31, 2023 and June 30, 2024	49	49
Class B: 125,000 shares authorized; 38,661 shares issued and outstanding at December 31, 2023 including 720 shares of restricted stock; and 39,021 shares issued and outstanding at June 30, 2024, including 615 shares of restricted stock	386	389
Additional paid-in capital	356,666	357,533
Accumulated deficit	(321,231)	(323,437)
Total stockholders' equity	35,870	34,534
Total liabilities and stockholders' equity	$ 47,477	$ 45,504

See accompanying Notes to the Condensed Consolidated Financial Statements.

MARCHEX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2023	2024	2023	2024
Revenue	$ 24,738	$ 23,646	$ 12,522	$ 12,074
Expenses:				
Service costs [(1)(3)]	10,842	8,566	5,418	4,152
Sales and marketing [(1)(3)]	6,601	5,529	2,631	2,742
Product development [(3)]	8,260	6,468	4,096	3,223
General and administrative [(3)]	5,163	4,817	2,546	2,528
Amortization of intangible assets from acquisitions [(2)]	1,062	301	531	151
Acquisition and disposition related costs (benefits)	12	—	(1)	—
Total operating expenses	31,940	25,681	15,221	12,796
Loss from operations	(7,202)	(2,035)	(2,699)	(722)
Interest income (expense) and other, net	26	(109)	(31)	(31)
Loss before provision for income taxes	(7,176)	(2,144)	(2,730)	(753)
Income tax expense	44	62	14	3
Net loss applicable to common stockholders	$ (7,220)	$ (2,206)	$ (2,744)	$ (756)
Basic and diluted net loss per Class A and B share applicable to common stockholders	$ (0.17)	$ (0.05)	$ (0.06)	$ (0.02)
Shares used to calculate basic net loss per share applicable to common stockholders:				
Class A	4,661	4,661	4,661	4,661
Class B	37,837	38,398	37,840	38,403
Shares used to calculate diluted net loss per share applicable to common stockholders:				
Class A	4,661	4,661	4,661	4,661
Class B	42,498	43,059	42,501	43,064
[(1)] Excludes amortization of intangibles from acquisitions				
[(2)] Components of amortization of intangibles from acquisitions:				
Service costs	234	234	117	117
Sales and marketing	828	67	414	34
Total	$ 1,062	$ 301	$ 531	$ 151
[(3)] Components of related party support services fee recovery				
Service costs	739	72	359	41
Sales and marketing	87	—	37	—
Product development	125	—	58	—
General and administrative	100	60	46	27
Total	$ 1,051	$ 132	$ 500	$ 68

See accompanying Notes to the Condensed Consolidated Financial Statements.

MARCHEX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders’ Equity
(in thousands)
(unaudited)

	Class A common stock		Class B common stock		Treasury stock		Additional paid-in capital	Accumulated deficit	Total stockholders’ equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at December 31, 2022	4,661	$ 49	38,497	$ 385	—	—	$ 354,999	$ (311,321)	$ 44,112
Issuance of common stock upon exercise of options, issuance and vesting of restricted stock and under employee stock purchase plan, net	—	—	282	3	—	—	9	—	12
Retirements of treasury stock	—	—	(105)	(1)	—	—	—	—	(1)
Stock-based compensation from options and restricted stock, net of forfeitures	—	—	—	—	—	—	799	—	799
Net loss	—	—	—	—	—	—	—	(4,476)	(4,476)
Balance at March 31, 2023	4,661	$ 49	38,674	$ 387	—	—	$ 355,807	$ (315,797)	$ 40,446
Issuance of common stock upon exercise of options, issuance and vesting of restricted stock and under employee stock purchase plan, net	—	—	22	—	—	—	7	—	7
Stock-based compensation from options and restricted stock, net of forfeitures	—	—	—	—	—	—	701	—	701
Net loss	—	—	—	—	—	—	—	(2,744)	(2,744)
Balance at June 30, 2023	4,661	$ 49	38,696	$ 387	—	$ —	$ 356,515	$ (318,541)	$ 38,410

	Class A common stock		Class B common stock		Treasury stock		Additional paid-in capital	Accumulated deficit	Total stockholders’ equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at December 31, 2023	4,661	$ 49	38,661	$ 386	—	—	$ 356,666	$ (321,231)	$ 35,870
Stock-based compensation from options and restricted stock, net of forfeitures	—	—	—	—	—	—	433	—	433
Issuance of Class B common stock in connection with prior deferred issuance from acquisition	—	—	356	3	—	—	(3)	—	—
Net loss	—	—	—	—	—	—	—	(1,450)	(1,450)
Balance at March 31, 2024	4,661	$ 49	39,017	$ 389	—	—	$ 357,096	$ (322,681)	$ 34,853
Stock-based compensation from options and restricted stock, net of forfeitures	—	—	—	—	—	—	437	—	437
Issuance of common stock upon vesting of restricted stock	—	—	4	—	—	—	—	—	—
Net loss	—	—	—	—	—	—	—	(756)	(756)
Balance at June 30, 2024	4,661	$ 49	39,021	$ 389	—	$ —	$ 357,533	$ (323,437)	$ 34,534

See accompanying Notes to the Condensed Consolidated Financial Statements.

MARCHEX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	June 30, 2023	June 30, 2024
Cash flows from operating activities:		
Net loss applicable to common stockholders	$ (7,220)	$ (2,206)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization and depreciation	1,842	1,145
Allowance for credit losses	155	(74)
Deferred income taxes	24	(9)
Stock-based compensation	1,500	870
Change in certain assets and liabilities:		
Accounts receivable, net	516	(168)
Prepaid expenses, other current assets, and other assets	(364)	(1,441)
Accounts payable	(1,123)	389
Accrued expenses and other current liabilities	(1,159)	(1,123)
Deferred revenue and deposits	58	256
Net cash used in operating activities	(5,771)	(2,361)
Cash flows from investing activities:		
Purchases of property and equipment	(522)	(81)
Net cash used in investing activities	(522)	(81)
Cash flows from financing activities:		
Proceeds from exercises of stock options, issuance and vesting of restricted stock and employee stock purchase plan, net	17	—
Repayments under finance lease liabilities and related obligations	(76)	(188)
Net cash used in financing activities	(59)	(188)
Net decrease in cash and cash equivalents	(6,352)	(2,630)
Cash and cash equivalents at beginning of period	20,474	14,607
Cash and cash equivalents at end of period	$ 14,122	$ 11,977
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 61	$ 65
Cash paid for interest	$ 47	$ 65

See accompanying Notes to the Condensed Consolidated Financial Statements.

MARCHEX, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1: Description of Business and Basis of Presentation

Description of Business

Marchex, Inc. ("Marchex" or the "Company") harnesses the power of AI and conversational intelligence to provide actionable insights aligned with prescriptive vertical market data analytics, driving operational excellence and revenue acceleration. Marchex enables executive, sales, and marketing teams to optimize customer journey experiences across communications channels. Through our prescriptive analytics solutions, we enable the alignment of enterprise strategy, empowering businesses to increase revenue through informed decision-making and strategic execution. Marchex provides conversational intelligence AI-powered solutions for market-leading companies in leading B2B2C vertical markets, including several of the world's most innovative and successful brands.

Marchex was incorporated in the state of Delaware on January 17, 2003.

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rule and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

The preparation of our Condensed Consolidated Financial Statements requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The Company has used estimates related to several financial statement amounts, including revenues, the allowance for credit losses, useful lives for property and equipment and intangible assets, valuation of intangible assets, the fair value of stock option awards, the impairment of goodwill, and the valuation allowance for deferred tax assets. Actual results could differ from those estimates.

Recent Accounting Pronouncements Not Yet Effective

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-07"), which requires public entities to disclose information about their reportable segments' significant expenses on an interim and annual basis. In addition, the amendments clarify circumstances in which an entity can disclose multiple segment measures of profit or loss, provides new segment disclosure requirements for entities with a single reportable segment and contains other disclosure requirements. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024, thus it will be effective for our annual reporting period ending December 31, 2024, and for quarterly periods thereafter, with early adoption permitted. The Company is currently assessing the impact of this ASU on its disclosures within the Condensed Consolidated Financial Statements.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures ("ASU 2023-09"), which requires disclosure of disaggregated income taxes paid, prescribes standardized categories for the components of the effective tax rate reconciliation, and modifies other income tax-related disclosures. ASU 2023-09 may be applied on a prospective basis and is effective for annual periods beginning after December 15, 2024, thus it will be effective for our annual reporting period ending December 31, 2025, with early adoption permitted. While we are still evaluating the specific impacts of adoption, we anticipate this guidance may have an impact on our annual income tax disclosures but not on our annual Consolidated Financial Statements.

Note 2: Revenue Recognition

We generate the majority of our revenues from conversational intelligence product offerings. Customers typically receive the benefit of the Company's services as they are performed and substantially all the Company's revenue is recognized over time as the services are performed.

Revenue is recognized when a customer obtains control of services in an amount that reflects the consideration the Company expects to receive in exchange for those services. The Company measures revenue based on the consideration specified in the customer arrangement, and revenue is recognized when the performance obligations in the customer arrangement are satisfied. A performance obligation is a promise in a contract to transfer a distinct service or product to the customer. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when or as the customer receives the benefit of the performance obligation.

The Company's AI-powered conversational analytics technology platform provides data and insights into the conversations our clients are having with their customers across phone, text and other communication channels. Our tools enable brands to personalize customer interactions in order to accelerate sales and capture more opportunities to grow their business. The Company generates revenue from the Company's conversational analytics technology platform when customers pay the Company a fee for call, text, or other communication related data element they receive from calls or texts or for each phone number tracked based on a pre-negotiated rate. Revenue is recognized as services are provided over time, which is generally measured by the delivery of each call/text or call/text related data element or each phone number tracked.

The majority of the Company's customers are invoiced on a monthly basis following the month of the delivery of services and are required to make payments under standard credit terms. The Company establishes an allowance for credit losses, which is included in *Accounts receivable, net* in the Condensed Consolidated Balance Sheets, using its best estimate of the amount of expected credit losses in our accounts receivable, to include expected future reductions in customers' payment obligations related to delivered services. We determine our allowance for credit losses based on analysis of historical bad debts and invoice credits, expected revenue adjustments, customer concentrations, customer creditworthiness, and current economic trends. The balance associated with the allowance for credit losses in the Condensed Consolidated Balance Sheets was $0.2 million as of both December 31, 2023 and June 30, 2024. The revenue recognized but not yet invoiced (unbilled AR) in the Condensed Consolidated Balance Sheets was $1.5 million and $1.6 million as of December 31, 2023 and June 30, 2024, respectively. Customer payments received in advance of revenue recognition are considered contract liabilities and are recorded as deferred revenue. The deferred revenue balance in the Condensed Consolidated Balance Sheets as of December 31, 2023 and June 30, 2024, was $1.2 million and $1.5 million, respectively. During the six months ended June 30, 2023 and 2024 revenue recognized that was included in contract liabilities at the beginning of the period was $0.7 million and $0.8 million, respectively. During the three months ended June 30, 2023 and 2024 revenue recognized that was included in contract liabilities at the beginning of the period was $0.1 million and $0.4 million, respectively.

The majority of the Company's total revenue is derived from contracts that include consideration that is variable in nature. The variable elements of these contracts primarily include the number of transactions (for example, the number qualified phone calls). For contracts with an effective term greater than one year, the Company applies the standard's practical expedient that permits the exclusion of disclosure of the value of unsatisfied performance obligations for these contracts as the Company's right to consideration corresponds directly to the value provided to the customer for services completed to date and all future variable consideration is allocated to wholly unsatisfied performance obligations. A term for purposes of these contracts has been estimated at 24 months. In addition, the Company applies the standard's optional exemption to disclose information about performance obligations for contracts that have original expected terms of one year or less.

For arrangements that include multiple performance obligations, the transaction price from the arrangement is allocated to each respective performance obligation based on its relative standalone selling price and recognized when revenue recognition criteria for each performance obligation are met. The standalone selling price for each performance obligation is established based on the sales price at which the Company would sell a promised good or service separately to a customer or the estimated standalone selling price.

The Company's incremental direct costs of obtaining a contract, which consist primarily of sales incentive compensation including commissions, are generally deferred and amortized to sales and marketing expense over the estimated life of the relevant customer relationship of approximately 24 months and are subject to being monitored every period to reflect any significant change in assumptions. In addition, the deferred contract cost asset is assessed for impairment on a periodic basis. The Company's contract acquisition costs are included in *Other assets, net* in the Condensed Consolidated Balance Sheets. The Company is applying the standard's practical expedient permitting expensing of costs to obtain a contract when the expected amortization period is one year or less, which typically results in expensing commissions paid to acquire certain contracts. As of December 31, 2023 and June 30, 2024, the Company had $0.3 million and $0.9 million of net deferred contract costs, respectively, and the accumulated amortization associated with these costs was $1.6 million and $1.9 million at December 31, 2023 and June 30, 2024, respectively.

Note 3: 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 the three and six months ended June 30, 2023 and 2024, the Company operated in a single segment comprised of its conversational analytics and related solutions.

Long-lived assets by geographical region are based on the location of the legal entity that owns the assets. As of December 31, 2023 and June 30, 2024, no significant long-lived assets were held by entities outside of the United States.

Revenues from customers by geographical areas are tracked on the basis of the location of the customer. The majority of the Company's revenue and accounts receivable are derived from domestic sales to customers.

Revenues by geographic region are as follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
(In Percentages)	**2023**	**2024**	**2023**	**2024**
United States	99 %	99 %	99 %	99 %
Canada and other countries	1 %	1 %	1 %	1 %
Total	100 %	100 %	100 %	100 %

Note 4: Concentrations

The Company maintains substantially all of its cash and cash equivalents with two financial institutions and are all considered at Level 1 fair value with observable inputs that reflect quoted prices for identical assets or liabilities in active markets.

The Company has one customer that represents more than 10% of consolidated revenue. The table below sets forth the percentage of the Company's consolidated revenue that was attributed to this customer for the periods presented below:

	Six Months Ended June 30,		Three Months Ended June 30,	
(In Percentages)	**2023**	**2024**	**2023**	**2024**
Customer A	11 %	11 %	11 %	10 %

The Company has one customer that represents more than 10% of consolidated accounts receivable. The Company also has a significant concentration of credit risk arising from receivables due from a network of independent dealers that is above the 10% threshold. These dealers, while independently operated, sell the same brands and collectively represent a substantial portion of the Company's receivables.The table below sets forth the percentage of the Company's outstanding receivable balance that was attributed to this customer, and attributed to the aggregated balance due from the independent dealer network, as of the periods presented below:

(In Percentages)	December 31, 2023	June 30, 2024
Concentration type:		
Customer A	21 %	21 %
Independent dealer network A	16 %	13 %

Note 5: Fair Value of Financial Instruments

The Company had the following financial instruments as of December 31, 2023 and June 30, 2024: cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities. The carrying value of these financial instruments approximates their fair value based on the liquidity of these financial instruments and their short-term nature. Further, these financial instruments are considered at Level 1 fair value with observable inputs that reflect quoted prices for identical assets or liabilities in active markets.

The following table provides information about the fair value of our cash and cash equivalents balance:

(In Thousands)	December 31, 2023	June 30, 2024
Level 1 assets:		
Cash	$ 9,510	$ 6,852
Money market funds	5,097	5,125
Total cash and cash equivalents	$ 14,607	$ 11,977

Note 6: Stockholders' Equity

Common Stock

In November 2014, the Company’s board of directors authorized a new share repurchase program (the “2014 Repurchase Program”), which supersedes and replaces any prior repurchase programs. Under the 2014 Repurchase Program, the Company is authorized to repurchase up to 3 million shares of the Company’s Class B common stock in the aggregate through open market and privately negotiated transactions, at such times and in such amounts as the Company deems appropriate. Repurchases may also be made under a Rule 10b5-1 plan, which would permit shares to be repurchased when the Company might otherwise be precluded from doing so under insider trading laws. 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. The 2014 Repurchase Program does not have an expiration date and may be expanded, limited or terminated at any time without prior notice. The Company made no repurchases under the 2014 Repurchase Program during the three and six months ended June 30, 2023 and 2024. Shares repurchased but not yet retired by the Company are classified as *Treasury stock* on the Condensed Consolidated Balance Sheets before retirement. Retirement of treasury stock results in reductions to common stock and additional paid-in capital.

Stock-based Compensation Plans

The Company grants stock-based awards, including stock options, restricted stock awards, and restricted stock units. The Company measures stock-based compensation cost at the grant date based on the fair value of the award and recognizes it as expense over the vesting or service period, as applicable, of the stock-based award using the straight-line method. The Company accounts for forfeitures as they occur. Stock-based compensation expense has been included in the same lines as compensation paid to the same employees in the Condensed Consolidated Statements of Operations.

Stock-based compensation expense was included in the following operating expense categories for the periods presented below:

(In Thousands)	Six Months Ended June 30, 2023	Six Months Ended June 30, 2024	Three Months Ended June 30, 2023	Three Months Ended June 30, 2024
Service costs	$ —	$ 6	$ (45)	$ 3
Sales and marketing	491	176	228	88
Product development	133	22	47	14
General and administrative	876	666	471	332
Total stock-based compensation	$ 1,500	$ 870	$ 701	$ 437

The Company uses the Black-Scholes option pricing model to estimate the per share fair value of stock option grants with time-based vesting. The Black-Scholes model relies on a number of key assumptions to calculate estimated fair values. For the three and six months ended June 30, 2023 and 2024, the expected life of each award granted was determined based on historical experience with similar awards, giving consideration to contractual terms, anticipated exercise patterns, and vesting schedules. Expected volatility is based on historical volatility levels of the Company's Class B common stock. The risk-free interest rate is based on the implied yield currently available on U.S. Treasury issues with terms approximately equal to the expected life of the option. The Company uses an expected annual dividend yield in consideration of the Company's common stock dividend payments, which we consider to be zero.

The following weighted average assumptions were used in determining the fair value of time-vested stock option grants for the periods presented:

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2024	Three Months Ended June 30, 2023	Three Months Ended June 30, 2024
Expected life (in years)	4.00 - 6.25	4.00 - 6.25	4.00 - 6.25	4.00 - 6.25
Risk-free interest rate	3.58% - 4.31%	4.21% - 4.43%	4.05% - 4.31%	4.33% - 4.43%
Expected volatility	53% - 64%	57% - 64%	53% - 64%	57% - 59%

Stock option activity during the six months ended June 30, 2024 is summarized as follows:

	Options (in thousands)	Weighted average exercise price of options	Weighted average remaining contractual term (in years)
Balance at December 31, 2023	5,395	$ 2.21	7.39
Options granted	105	$ 1.36	
Options forfeited	(110)	$ 1.67	
Options expired	(160)	$ 7.63	
Options exercised	—		
Balance at June 30, 2024	5,230	$ 2.03	7.10

Restricted stock awards and restricted stock unit activity during the six months ended June 30, 2024 is summarized as follows:

	Shares/ Units (In Thousands)	Weighted Average Grant Date Fair Value
Unvested at December 31, 2023	782	$ 1.94
Granted	—	—
Vested	(107)	2.16
Forfeited	(15)	1.46
Unvested at June 30, 2024	660	1.97

Note 7: Net Loss Per Share

The Company computes net loss per share of Class A and Class B common stock using the two class method. Under the provisions of the two class method, basic net loss per share is computed by dividing net loss applicable to common stockholders by the weighted average number of common shares outstanding during the year. Diluted net loss per share is computed by dividing net 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 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 loss per share of Class A common stock does not assume the conversion of those shares.

In accordance with the two class method, the undistributed earnings (losses) for each year are allocated based on the contractual participation rights of the Class A and Class B common shares and the restricted 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 its common stock in accordance with Delaware General Corporation Law, equivalent dividends shall be 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 the Company's net assets in the event of liquidation, the Company has allocated undistributed earnings (losses) on a proportionate basis.

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 the two class method, dividends paid on unvested restricted stock are allocated to these participating securities and therefore impact the calculation of amounts allocated to common stock.

The following table presents the computation of basic net loss per share applicable to common stockholders for the periods ended:

	Six Months Ended June 30,			
	2023		2024	
(In Thousands, Except Per Share Amounts)	**Class A**	**Class B**	**Class A**	**Class B**
Basic net loss per share:				
Numerator:				
Net loss applicable to common stockholders	$ (792)	$ (6,428)	$ (239)	$ (1,967)
Denominator:				
Weighted average number of shares outstanding used to calculate basic net loss per share	4,661	37,837	4,661	38,398
Basic net loss per share applicable to common stockholders	$ (0.17)	$ (0.17)	$ (0.05)	$ (0.05)

	Three Months Ended June 30,			
	2023		2024	
(In Thousands, Except Per Share Amounts)	**Class A**	**Class B**	**Class A**	**Class B**
Basic net loss per share:				
Numerator:				
Net loss applicable to common stockholders	$ (301)	$ (2,443)	$ (82)	$ (674)
Denominator:				
Weighted average number of shares outstanding used to calculate basic net loss per share	4,661	37,840	4,661	38,403
Basic net loss per share applicable to common stockholders	$ (0.06)	$ (0.06)	$ (0.02)	$ (0.02)

The following table presents the computation of diluted net loss per share applicable to common stockholders for the periods ended:

(In Thousands, Except Per Share Amounts)	Six Months Ended June 30, 2023 Class A	2023 Class B	2024 Class A	2024 Class B
Diluted net loss per share:				
Numerator:				
Net loss applicable to common stockholders	$ (792)	$ (6,428)	$ (239)	$ (1,967)
Reallocation of net loss for Class A shares as a result of conversion of Class A to Class B shares	—	(792)	—	(239)
Diluted net loss applicable to common stockholders:	$ (792)	$ (7,220)	$ (239)	$ (2,206)
Denominator:				
Weighted average number of shares outstanding used to calculate basic net loss per share	4,661	37,837	4,661	38,398
Conversion of Class A to Class B common shares outstanding	—	4,661	—	4,661
Weighted average number of shares outstanding used to calculate diluted net loss per share	4,661	42,498	4,661	43,059
Diluted net loss per share applicable to common stockholders	$ (0.17)	$ (0.17)	$ (0.05)	$ (0.05)

(In Thousands, Except Per Share Amounts)	Three Months Ended June 30, 2023 Class A	2023 Class B	2024 Class A	2024 Class B
Diluted net loss per share:				
Numerator:				
Net loss applicable to common stockholders	$ (301)	$ (2,443)	$ (82)	$ (674)
Reallocation of net loss for Class A shares as a result of conversion of Class A to Class B shares	—	(301)	—	(82)
Diluted net loss applicable to common stockholders:	$ (301)	$ (2,744)	$ (82)	$ (756)
Denominator:				
Weighted average number of shares outstanding used to calculate basic net loss per share	4,661	37,840	4,661	38,403
Conversion of Class A to Class B common shares outstanding	—	4,661	—	4,661
Weighted average number of shares outstanding used to calculate diluted net loss per share	4,661	42,501	4,661	43,064
Diluted net loss per share applicable to common stockholders	$ (0.06)	$ (0.06)	$ (0.02)	$ (0.02)

For the three and six months ended June 30, 2023 and 2024, the computation of diluted net loss per share excludes the following because their effect would be anti-dilutive (in thousands):

- As of June 30, 2023 and 2024, outstanding options to acquire 4,503 and 5,230 shares, respectively of Class B common stock.
- As of June 30, 2023 and 2024, 989 and 616 shares of unvested Class B restricted common shares, respectively.
- As of June 30, 2023 and 2024, 279 and 44 restricted stock units, respectively.

Note 8: Property and Equipment

Property and equipment consisted of the following:

(In Thousands)	December 31, 2023	June 30, 2024
Computer and other related equipment	$ 1,012	$ 1,091
Purchased and internally developed software	2,699	2,699
Furniture and fixtures	260	262
Construction in progress	25	25
	$ 3,996	$ 4,077
Less: accumulated depreciation and amortization	(1,598)	(2,216)
Property and equipment, net	$ 2,398	$ 1,861

Depreciation and amortization expense related to property and equipment was approximately $0.7 million and $0.6 million for the six months ended June 30, 2023 and 2024, respectively, and $0.4 million and $0.3 million for the three months ended June 30, 2023 and 2024, respectively.

Note 9: Leases

The Company has operating leases for its corporate office headquarters in Seattle, Washington, and for office space in Wichita, Kansas. The Company recognizes its operating lease agreements in accordance with ASC 842 and recognizes rent expense on a straight-line basis over the lease term with any lease incentives amortized as a reduction of rent expense over the lease term. Assets under operating leases are included in *Right-of-use lease asset,* and the related liabilities are included in *Lease liability current* and *Lease liability, non-current* on the Condensed Consolidated Balance Sheets.

Assets under finance leases, which primarily represent computer equipment, are subject to a rental agreement for utilization of this equipment; however, we retain our primary obligation under the original financing terms. Therefore, the Company does not have a right-of-use asset, but it does carry the lease liability related to this financed equipment, on the Condensed Consolidated Balance Sheets. The present value of the rent receivable from the rental agreement is included in *Other assets, net*, and the related lease liability is included in *Other accrued expenses and current liabilities* and *Finance lease, non-current* on the Condensed Consolidated Balance Sheets.

Lease cost recognized in the Condensed Consolidated Statements of Operations and other lease information is summarized as follows:

(In Thousands)	Six Months Ended June 30, 2023	Six Months Ended June 30, 2024	Three Months Ended June 30, 2023	Three Months Ended June 30, 2024
Operating lease cost	$ 644	$ 287	$ 152	$ 144
Finance lease cost:				
Amortization of right-of-use assets	69	—	56	—
Interest on lease liabilities	18	41	18	19
Variable lease cost	—	(3)	—	(8)
Short-term operating lease cost	138	12	44	6
Total lease cost	869	337	270	161
Other information:				
Weighted-average remaining lease term - operating leases	3.8	3.0		
Weighted-average remaining lease term - finance leases	2.4	1.4		
Weighted-average discount rate - operating leases	6.6 %	6.8 %		
Weighted-average discount rate - finance leases	14.8 %	14.1 %		
Cash paid for operating leases	$ 1,411	$ 276	$ 168	$ 133
Cash paid for finance leases	$ 66	$ 229	$ 66	$ 115

As of June 30, 2024, the Company’s future payments under operating and finance lease liabilities were as follows:

(In Thousands)	Operating Leases	Finance Leases
2024	$ 283	$ 152
2025	566	421
2026	397	—
2027	381	—
2028 and thereafter	—	—
Gross future lease payments	1,627	573
Less: imputed interest	(174)	(54)
Present value of total lease liabilities	1,453	519
Less: current portion of lease liabilities	(486)	(263)
Total long-term lease liabilities	$ 967	$ 256

Note 10: Commitments, Contingencies, and Taxes

Commitments

The Company has commitments for future payments related to office facilities and financed equipment leases, as well as other contractual obligations primarily related to minimum payments due to outside service providers. For information regarding the Company's lease commitments, see *Note 9, Leases* of the Notes to the Condensed Consolidated Financial Statements.

Future minimum payments on the Company's other contractual obligations are approximately as follows:

(In Thousands)	
2024	2,403
2025	6,298
2026	3,803
2027	1,111
2028 and thereafter	—
Total minimum payments	$ 13,615

Contingencies

The Company from time to time is a party to disputes and legal and administrative proceedings arising from the ordinary course of business. We could become in the future subject to legal proceedings, governmental investigations, and claims in the ordinary course of business, including employment claims, contract-related claims, and claims of alleged infringement of third-party patents, trademarks, and other intellectual property rights. Such claims, even if not meritorious, could force us to expend significant financial and managerial resources and could be material.

In certain agreements, the Company has agreed to indemnification provisions of varying scope and terms with customers, vendors and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company’s breach of agreements or representations and warranties made by the Company, services to be provided by the Company and intellectual property infringement claims made by third parties. As a result of these provisions, the Company may from time to time provide certain levels of financial support to contract parties to seek to minimize the impact of any associated litigation in which they may be involved. To date, there have been no known events or circumstances that have resulted in any material costs related to these indemnification provisions and no liabilities therefore have been recorded in the accompanying Condensed Consolidated Financial Statements. However, the maximum potential amount of the future payments the Company could be required to make under these indemnification provisions could be material.

On October 21, 2022, the Shareholder Representatives for the former shareholders of Telmetrics, Inc. (an entity acquired by the Company in 2018) filed litigation against the Company in the U.S. District Court for the District of Delaware. The plaintiffs are asserting claims under a share purchase agreement and escrow agreement regarding entitlement to an earnout of up to $3.0 million and $1.0 million that was placed in escrow to secure indemnification obligations. On March 22, 2023, the plaintiffs filed an amended complaint also seeking substantial punitive damages, followed by a second amended complaint on May 9, 2023. On June 7, 2023, the Company filed a motion to compel arbitration and/or dismiss the second amended complaint. The plaintiffs filed a responsive brief on July 5, 2023, and the Company filed a reply brief on July 26, 2023. On February 2, 2024, the Magistrate Judge issued a report and recommendation advising the U.S. District Court Judge to dismiss certain claims from the second amended complaint and to allow other claims to proceed to discovery. The parties filed objections to the report and recommendation on February 16, 2024. On July 17, 2024, the U.S. District Court Judge adopted portions of the Magistrate Judge's recommendation. The parties are preparing to commence the discovery phase. While we believe we have meritorious defenses to this lawsuit and are vigorously defending against it, litigation is inherently uncertain and we cannot currently predict the ultimate outcome of this matter.

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, results of operations or liquidity.

Taxes

The Company regularly reviews deferred tax assets to assess whether it is more likely than not that its deferred tax assets will be realized and, if necessary, establishes a valuation allowance for portions of such assets to reduce the carrying value. In assessing whether it is more likely than not that the Company’s deferred tax assets will be realized, factors considered included: historical taxable income, historical trends related to customer usage rates, projected revenues and expenses, macroeconomic conditions, issues facing the industry, existing contracts, the Company’s ability to project future results and any appreciation of its other assets. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences are deductible. The Company considered the future reversal of deferred tax liabilities, carryback potential, projected taxable income, and tax planning strategies as well as its history of taxable income or losses in the relevant jurisdictions in making this assessment. Based on the level of historical taxable losses and the uncertainty of projections for future taxable income over the periods for which the deferred tax assets are deductible, with the exception of certain insignificant foreign deferred tax assets, the Company concluded that it is not more likely than not that the gross deferred tax assets will be realized and, accordingly, recorded 100% valuation allowance against these deferred tax assets as of December 31, 2023 and June 30, 2024.

From time to time, various state, federal and other jurisdictional tax authorities undertake audits of the Company and its filings. In evaluating the exposure associated with various tax filing positions, the Company on occasion accrues charges for uncertain positions. Resolution of uncertain tax positions will impact the Company’s effective tax rate when settled. The Company does not have any significant interest or penalty accruals. The provision for income taxes includes the impact of contingency provisions and changes to contingencies that are considered appropriate. 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 2013 are within the statute of limitations and are subject to review and adjustment by the Internal Revenue Service.

Note 11: Identifiable Intangible Assets from Acquisitions

Identifiable intangible assets from acquisitions consisted of the following:

	As of December 31, 2023			
(In Thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Impairment**	**Net Carrying Amount**
Customer relationships	$ 13,018	$ (9,588)	$ (3,430)	$ —
Technologies	9,369	(7,839)	(1,062)	468
Non-compete agreements	3,409	(2,929)	(346)	134
Trade names	734	(613)	(121)	—
Total identifiable intangible assets from acquisitions	$ 26,530	$ (20,969)	$ (4,959)	$ 602

	As of June 30, 2024			
(In Thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Impairment**	**Net Carrying Amount**
Customer relationships	$ 13,018	$ (9,588)	$ (3,430)	$ —
Technologies	9,369	(8,073)	(1,062)	234
Non-compete agreements	3,409	(2,996)	(346)	67
Trade names	734	(613)	(121)	—
Total identifiable intangible assets from acquisitions	$ 26,530	$ (21,270)	$ (4,959)	$ 301

Intangible assets from acquisitions represent customer relationships, acquired technology, non-competition agreements, and trade names. These assets are determined to have definite lives and are amortized on a straight-line basis over the estimated period over which we expect to realize economic value related to the intangible asset. The amortization periods range from one year to 5 years. Based upon the amount of acquired identifiable intangible assets subject to amortization as of June 30, 2024, the estimated remaining amortization expense for the fiscal year 2024 is $0.3 million.

Note 12: Support Services Fee

In October 2020, the Company sold certain assets related to its Local Leads Platform, Call Marketplace and other assets not related to core conversational analytics. The purchaser was a related party controlled by a shareholder and officers of the Company. In connection with the closing, the Company also entered into an administrative support services agreement with the related party purchaser pursuant to which the Company was to provide services to the related party purchaser for a support services fee. Support services fees related to this arrangement totaled $1.1 million and $0.1 million for the six months ended June 30, 2023 and 2024, respectively, and $0.5 million and $0.1 million for the three months ended June 30, 2023 and 2024, respectively, and are included in the Condensed Consolidated Statements of Operations, net of the related expenses, within *Service costs, Sales and marketing*, *Product development*, *and General and administrative*. As of December 31, 2023 and June 30, 2024, the net amount due from the purchaser of $0.4 million and $0.2 million, respectively, is included in the Condensed Consolidated Balance Sheets within *Prepaid expenses and other current assets*.

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, prospects, acquisitions, dispositions, 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. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements we make. There are a number of important factors that could cause the actual results of Marchex to differ materially from those indicated by such forward-looking statements. 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, 2023, as amended, 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.

Overview

Marchex harnesses the power of AI and conversational intelligence to provide actionable insights aligned with prescriptive vertical market data analytics, driving operational excellence and revenue acceleration. Marchex enables executive, sales, and marketing teams to optimize customer journey experiences across communications channels. Through our prescriptive analytics solutions, we enable the alignment of enterprise strategy, empowering businesses to increase revenue through informed decision-making and strategic execution. Marchex provides conversational intelligence AI-powered solutions for market-leading companies in leading B2B2C vertical markets, including several of the world's most innovative and successful brands.

Our mission is to create intelligence around all types of business conversations. We desire to be a leader in vertical market conversational intelligence leveraging generative artificial intelligence and data analytics. We seek to empower performance improvements for our customers by giving them actionable, real-time insights into the conversations they are having with their customers across phone, text and other communication channels. We have assembled a set of applications that incorporate artificial intelligence ("AI") functionality for enterprises that depend on phone calls, texts and other communication channels to help convert prospects into customers, enabling compelling customer experiences during the sales process and helping maximize returns. Our proprietary data and conversational insights help enable brands to personalize customer interactions in order to accelerate sales and capture more opportunities to grow their business. We serve large enterprises with a distributed footprint that interact with their customers across multiple communication paths.

We were incorporated in Delaware on January 17, 2003.

We have offices in Seattle, Washington; and Wichita, Kansas.

Recent Developments

New Customer Traction and Existing Customer Expansion

During the quarter, Marchex made progress in adding relationships in the Auto and Auto Services verticals, as well as in expanding existing relationships in the Home Services vertical. The Company continues to make progress expanding its pipeline of opportunities across multiple verticals.

Product Innovation

Marchex recently announced that it has won two industry awards: The AI Breakthrough Award for "Best Text Generative AI Solution" and the APPEALIE SaaS Customer Success award. The Company continues to be recognized for its innovation with its Call Summaries and Sentiment Suite offering and its commitment to customer success.

Business Update

Our revenue decreased $1.1 million, or 4%, from $24.7 million for the six months ended June 30, 2023 to $23.6 million for the six months ended June 30, 2024. Revenue decreased $0.4 million, or 3%, from $12.5 million for the three months ended June 30, 2023 to $12.1 million for the three months ended June 30, 2024. The decreases are attributable primarily to certain non-recurring non-core analytics revenue in 2023, as well as lower conversational volumes in the 2024 periods compared to the 2023 periods, primarily with our small business listing and solutions resellers who face customer churn and consumer-related macroeconomic factors. Despite the headwinds in certain customer segments and with volume levels to start 2024, we continue to make progress and grow our dealer channel, signing new Auto OEM customers to multi-year agreements and also expanding various key Home Services relationships. This trend, along with expansion of our vertical go-to-market initiatives which is expected to result in new customer relationships across our verticals, continued innovation in our AI capabilities and product offerings, and completion of the necessary infrastructure to accelerate product cross selling to existing and new customers, may provide an opportunity for potential revenue growth.

We believe our operating expenses have prospective opportunity for further efficiencies as we continue to make advancements in our technology infrastructure and cloud initiatives, to "OneStack". OneStack enables our technologies and clients to be more easily managed in a less costly operating environment. It provides a streamlined product innovation and go to market approach, allowing our vertical market clients to potentially consume all our signals, data analytics and applied AI and also provides speed and scale for client onboarding while streamlining support and account management.

For additional information on the effects of our technology environment restructuring efforts on our business and operations, refer to “Results of Operations” within this discussion and analysis below.

Components of the Results of our Operations

Revenue

We generate the majority of our revenues from our conversational intelligence product offerings. Our AI-powered conversational analytics technology platform provides data and insights into the conversations our clients are having with their customers across phone, text and other communication channels. Our tools enable brands to personalize customer interactions in order to accelerate sales and capture more opportunities to grow their business. We generate revenue when our customers pay us a fee for each call/text or call/text related data element they receive from calls or texts or for each phone number tracked based on a pre-negotiated rate. Customers typically receive the benefit of our services as they are performed and substantially all of our revenue is recognized over time as services are performed.

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 owed that occurs subsequent to period ends.

Service Costs

Our service costs represent the cost of providing our services to our customers. These costs primarily consist of telecommunication costs, including the use of phone numbers relating to our services; colocation service charges of our network equipment and related network operations costs; bandwidth and software license fees; conversational data processing costs; and payroll and related expenses of personnel, including stock-based compensation.

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 customers; and stock-based compensation of related personnel.

Product Development

Product development costs consist primarily of expenses incurred in the research and development, and creation and enhancement, of our products and services. These costs primarily consist of 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 U.S. GAAP.

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 measure stock-based compensation cost at the grant date based on the fair value of the award and recognize it as expense over the vesting or service period, as applicable, of the stock-based award using the straight-line method. We account for forfeitures as they occur. Stock-based compensation expense is included in the same lines as compensation paid to the same employees in the Condensed Consolidated Statements of Operations.

Amortization of Intangibles from Acquisitions

Amortization of intangible assets excluding goodwill relates to intangible assets identified in connection with our acquisitions. The intangible assets have been identified as customer relationships; acquired technology; non-competition agreements; trade names. These assets are amortized over useful lives ranging from 12 to 60 months.

Provision for Income Taxes

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 law is recognized in results of operations in the period that includes the enactment date.

Results of Operations

The following tables present revenue and certain of our operating results as a percentage of revenue:

(In Thousands, Except Percentages)	Six Months Ended June 30, 2023	% of revenue	Six Months Ended June 30, 2024	% of revenue
Revenue	$ 24,738	100 %	$ 23,646	100 %
Expenses:				
Service costs	10,842	44 %	8,566	36 %
Sales and marketing	6,601	27 %	5,529	23 %
Product development	8,260	33 %	6,468	27 %
General and administrative	5,163	21 %	4,817	20 %
Amortization of intangible assets from acquisitions	1,062	4 %	301	1 %
Acquisition and disposition related costs	12	0 %	—	0 %
Total operating expenses	31,940	129 %	25,681	109 %
Loss from operations	(7,202)	-29 %	(2,035)	-9 %

(In Thousands, Except Percentages)	Three Months Ended June 30, 2023	% of revenue	Three Months Ended June 30, 2024	% of revenue
Revenue	$ 12,522	100 %	$ 12,074	100 %
Expenses:				
Service costs	5,418	43 %	4,152	34 %
Sales and marketing	2,631	21 %	2,742	23 %
Product development	4,096	33 %	3,223	27 %
General and administrative	2,546	20 %	2,528	21 %
Amortization of intangible assets from acquisitions	531	4 %	151	1 %
Acquisition and disposition related costs	(1)	0 %	—	0 %
Total operating expenses	15,221	122 %	12,796	106 %
Loss from operations	(2,699)	-22 %	(722)	-6 %

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

(In Thousands)	Six Months Ended June 30, 2023	Six Months Ended June 30, 2024	Three Months Ended June 30, 2023	Three Months Ended June 30, 2024
Service costs	$ —	$ 6	$ (45)	$ 3
Sales and marketing	491	176	228	88
Product development	133	22	47	14
General and administrative	876	666	471	333
Total stock-based compensation	$ 1,500	$ 870	$ 701	$ 438

See *Note 6. Stockholders' Equity* of the Notes to the Condensed Consolidated Financial Statements, as well as our Critical Accounting Policies for additional information about stock-based compensation.

Revenue

Revenue decreased $1.1 million, or 4%, from $24.7 million for the six months ended June 30, 2023 to $23.6 million for the six months ended June 30, 2024. Revenue decreased $0.4 million, or 3%, from $12.5 million for the three months ended June 30, 2023 to $12.1 million for the three months ended June 30, 2024. The six and three month comparative periods were impacted from certain non-recurring non-core analytics revenue in 2023, and lower call volumes in the 2024 period as compared to the 2023 period. The lower volumes primarily came from several of our small business listing and solution providers that mostly sell marketing services to local businesses. For additional information on our revenue results, refer to “Recent Developments - Business Update” within this discussion and analysis above.

Expenses

Service Costs. Service costs decreased $2.2 million, or 20%, from $10.8 million for the six months ended June 30, 2023, to $8.6 million for the six months ended June 30, 2024. As a percentage of revenue, service costs were 44% and 36% for the six months ended June 30, 2023 and 2024, respectively. The change from the prior year was primarily due to $0.9 million lower conversational data processing and telecommunication costs due to a combination of lower conversational volumes, benefits from leveraging AI technology, and efficient vendor cost management. In addition, personnel costs were $0.9 million lower as we reorganized and realigned our technology teams.

Service costs decreased $1.2 million, or 22%, from $5.4 million for the three months ended June 30, 2023, to $4.2 million for the three months ended June 30, 2024. As a percentage of revenue, service costs were 43% and 35% for the three months ended June 30, 2023 and 2024, respectively. The change from the prior year was due in large part to $0.5 million lower conversational data processing and telecommunication costs due to a combination of lower conversational volumes, benefits from leveraging AI technology, and efficient vendor cost management. In addition, personnel costs were $0.7 million lower as we reorganized and realigned our technology teams.

We expect in the near term that service costs in absolute dollars will be similar to or modestly lower in relation to the most recent quarter. In the intermediate to longer term, we believe that the successful completion of the OneStack initiative (refer to “Recent Developments - Business Update” within this discussion and analysis above) and acceleration of our vertical market growth strategy may provide an opportunity for potential gross margin improvement. Further, there may be a positive impact on service costs as a percentage of revenue in the event we generate contribution from new launches of analytics products and sales engagement solutions.

Sales and Marketing. Sales and marketing expenses decreased $1.1 million, or 17%, from $6.6 million for the six months ended June 30, 2023 to $5.5 million for the six months ended June 30, 2024. As a percentage of revenue, sales and marketing expenses were 27% and 23% for the six months ended June 30, 2023 and 2024, respectively. The change from the prior year was primarily attributable to $0.7 million in lower costs for personnel and contractors engaged in marketing and sales functions, as we realigned and focused our go-to-market initiatives. In addition, stock-based compensation was $0.3 million lower.

Sales and marketing expenses increased $0.1 million, or 4%, from $2.6 million for the three months ended June 30, 2023 to $2.7 million for the three months ended June 30, 2024. As a percentage of revenue, sales and marketing expenses were 21% and 22% for the three months ended June 30, 2023 and 2024, respectively. The change from the prior year was attributable to $0.2 million higher personnel costs, partially offset by $0.1 million lower stock-based compensation expense.

We expect some volatility in sales and marketing expenses based on the timing of marketing and customer engagement initiatives, but in the near term, we expect these costs to be similar to or modestly higher than the most recent quarter or increase modestly as revenues increase. We also expect, to the extent that we increase our marketing activities, this could correspondingly also cause an increase in sales and marketing expenses as a percentage of revenue. In the intermediate to longer term, we expect to increase marketing activities and personnel supporting our sales and marketing and related growth initiatives.

Product Development. Product development expenses decreased $1.8 million, or 22%, from $8.3 million for the six months ended June 30, 2023 to $6.5 million for the six months ended June 30, 2024. As a percentage of revenue, product development expenses were 34% and 28% for the six months ended June 30, 2023 and 2024, respectively. The change from the prior year was primarily attributable to $1.9 million in lower personnel and contractor costs, as we reorganized and realigned our research and development teams. In addition, stock-based compensation was $0.1 million lower, offset by $0.2 million in increased contractor costs in support of OneStack infrastructure initiatives.

Product development expenses decreased $0.9 million, or 22%, from $4.1 million for the three months ended June 30, 2023, to $3.2 million for the three months ended June 30, 2024. As a percentage of revenue, product development expenses were 33% and 26% for the three months ended June 30, 2023 and 2024, respectively. The change from the prior year was primarily attributable to $1.0 million in lower personnel and contractor costs, as we reorganized and realigned our research and development teams, partially offset by $0.1 million in increased contractor costs in support of OneStack infrastructure initiatives.

In the near term, we expect that product development expenses, in absolute dollars and as a percentage of revenue, will be similar to or modestly higher than the most recent quarter, as we continue to invest in our products and in building AI to expand our conversational intelligence capabilities. In the longer term, we expect to increase investment in AI technology to enhance our service offerings.

General and Administrative. General and administrative expenses decreased $0.4 million, or 8% from $5.2 million for the six months ended June 30, 2023 to $4.8 million for the six months ended June 30, 2024. As a percentage of revenue, general and administrative expenses were 21% and 20% for the six months ended June 30, 2023 and 2024, respectively. The change from the prior year was primarily attributable to a $0.3 million non-recurring payment made to terminate a software agreement in the first quarter of 2023.

General and administrative expenses were consistent at $2.5 million for both of the three months ended June 30, 2023 and 2024. As a percentage of revenue, general and administrative expenses were 20% and 21% for the three months ended June 30, 2023, and 2024, respectively.

We expect some volatility in general and administrative expenses, primarily related to professional fees and insurance, based on the timing of regulatory updates in connection with our being a public company. We also expect fluctuations in our general and administrative expenses related to stock-based compensation, as the recognition of stock-based compensation expense is impacted by market conditions relating to our stock price.

In the near term, we expect our general and administrative expenses to be similar to or modestly lower than the most recent quarter, as we continue to focus on cost management and enhancing overall operational efficiency. In the intermediate to longer term, to the extent that we undertake internal technology improvement initiatives or expand our operations and issue additional stock-based compensation, general and administrative expenses, in absolute dollars and as a percentage of revenue, could increase.

Amortization of Intangible Assets from Acquisitions. Intangible amortization expense was $1.1 million and $0.3 million for the six months ended June 30, 2023, and 2024, respectively. Intangible amortization expense was $0.5 million and $0.2 million for the three months ended June 30, 2023, and 2024, respectively. This expense was associated with amortization of intangible assets acquired from business acquisitions made in 2018 and 2019, and is further categorized as service costs or sales and marketing expense in the Company's Condensed Consolidated Statements of Operations based on the nature of the underlying intangible asset. We expect intangible asset amortization for all remaining quarterly periods in 2024 to remain the same as the most recent quarter, at which point all intangible assets will reach the end of their useful lives and be fully amortized.

Income Tax. Income tax expense was $44.0 thousand and $62.0 thousand for the six months ended June 30, 2023, and 2024, respectively. Income tax expense was $14.0 thousand and $3.0 thousand for the three months ended June 30, 2023, and 2024, respectively. The income tax expense consists primarily of U.S. state income tax expense for all comparative periods. The effective tax rate differed from the expected tax rate of 21% in both years primarily due to a full valuation allowance and, to a lesser extent, state income taxes, foreign branch income and rate differential, non-deductible stock-based compensation related to incentive stock options recorded under the fair-value method, and other non-deductible amounts.

At June 30, 2024, based on all the available evidence, both positive and negative, we determined that it is more likely than not that our deferred tax assets will not be realized and accordingly, we have recorded a full valuation allowance of $54.9 million against our net deferred tax assets ($55.1 million of deferred tax assets that are partially offset by $0.5 million in reversing deferred tax liabilities). This compares to a full valuation allowance of $51.8 million at December 31, 2023 ($55.0 million of deferred tax assets that are partially offset by $0.4 million in reversing deferred tax liabilities). In assessing the realizability of deferred tax assets, based on all the available evidence, both positive and negative, we considered whether it is more likely than not that some or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences are deductible. We considered the future reversal of deferred tax liabilities, carryback potential, projected taxable income, and tax planning strategies as well as the Company's history of taxable income or losses in the relevant jurisdictions in making this assessment.

Net Loss. Net loss was $7.2 million for the six months ended June 30, 2023, as compared to a net loss of $2.2 million for the six months ended June 30, 2024. The decrease in net loss was primarily attributable to the $6.3 million decrease in total operating expenses, which was driven by the $2.2 million decrease in service costs and the $1.8 million decrease in product development expenses discussed above, partially offset by the $1.1 million decrease in revenue also discussed above.

Liquidity and Capital Resources

As of December 31, 2023, and June 30, 2024, we had cash and cash equivalents of $14.6 million and $12.0 million, respectively. As of June 30, 2024, we had current and non-current contractual obligations of $15.8 million, of which $2.2 million is for payments due under our facilities and financed equipment leases.

Cash used in operating activities was $2.4 million during the six months ended June 30, 2024. The cash used in operating activities was primarily a result of a net loss of $2.2 million, adjusted for an increase in cash due to non-cash items of $1.9 million, which primarily included depreciation and amortization and stock-based compensation, offset by a decrease in cash due to changes in working capital of $2.1 million. The change in working capital was driven primarily by a decrease in accrued expenses and other current liabilities as well as an increase in prepaid expenses, other current assets, and other assets. Cash used in operating activities was $5.8 million for the six months ended June 30, 2023. The cash used in operating activities was primarily a result of a net loss of $7.2 million adjusted for an increase in cash due to non-cash items of $3.5 million, which primarily included depreciation and amortization and stock-based compensation, and a decrease in cash due to changes in working capital of $2.1 million, which primarily included a decrease in accounts payable and accrued expenses and other current liabilities, offset by a decrease in accounts receivable account balances.

Cash used in operating activities for the six months ended June 30, 2024, included costs related to certain reorganization activities and our OneStack initiative (refer to "Recent Developments - Business Update" within this discussion and analysis above). We believe that those initiatives should benefit us through lower operating expenses in the near and intermediate term. To the extent we are unable to effectively execute these operational initiatives or our revenue growth initiatives, our revenues could be lower, and our costs could be consistent with or higher, than current levels, which would have an adverse impact on our future operating cash flows, liquidity, and profitability.

Cash used in investing activities for the six months ended June 30, 2023, and June 30, 2024, was $0.5 million and $0.1 million, respectively, and was primarily attributable to cash paid for purchases of property and equipment for our technology infrastructure platform in both years, as well as capitalized software development costs in 2023.

In the near term, we expect property and equipment purchases and capitalized software development costs to be similar to or modestly higher compared to our most recent period, as we invest in equipment for our personnel and other systems enhancements. In the intermediate to longer term, we expect our capitalized expenditures to increase, as we accelerate product innovation with more AI-powered features and capabilities. Further, in the longer term, we expect any increase in our operations to have a corresponding increase in capital expenditures required to support our systems and personnel.

Cash used in financing activities for the six months ended June 30, 2023 and June 30, 2024 was $0.1 million and $0.2 million, respectively, and was primarily attributable to payments made related to equipment financing lease obligations in both periods.

Based on our operating plans we believe that our resources will be sufficient to fund our operations, including any investments in strategic initiatives, for at least twelve months, however macroeconomic factors could influence our operating plans and resources significantly. Additional equity and debt financing may be needed to support our acquisition strategy, our long-term obligations, and our Company's needs. There can be no assurance that, if we needed additional funds, financing arrangements would be available in amounts or on terms acceptable to us, if at all. 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

Our Condensed Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). As such, we are required to make certain estimates, judgments and assumptions that management believes are reasonable based upon the information available. We base these estimates on our historical experience, future expectations and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments that may not be readily apparent from other sources.

There have been no significant changes in our critical accounting policies and estimates during the six months ended June 30, 2024, as compared to the critical accounting policies and estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2023, as amended, filed with the SEC on April 1, 2024.

Recent Accounting Pronouncements Not Yet Effective

For discussion regarding recent accounting pronouncements not yet effective, see *Note 1. Description of Business and Basis of Presentation* of the Notes to our Condensed Consolidated Financial Statements.

Web site

Our web site, *www.marchex.com,* provides access, without charge, to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such materials are electronically filed with the Securities and Exchange Commission. To view these filings, please go to our web site and click on "Investor Relations" and then click on "SEC Filings." Investors and others should note that we announce material financial information to our investors using our investor relations website, press releases, SEC filings, and public conference calls and webcasts. We also use the following social media channels as a means of disclosing information about us, our services, and other matters, and for complying with our disclosure obligations under Regulation FD:

- Marchex X (formally known as Twitter) Account (https://twitter.com/marchex)
- Marchex Company Blog (https://www.marchex.com/blog/)
- Marchex LinkedIn Account (https://linkedin.com/company/marchex)

The information we post through these social media channels may be deemed material. Accordingly, investors should monitor the above account and the blog, in addition to following our investor relations website, press releases, SEC filings, and public conference calls and webcasts. This list may be updated from time to time. The information we post through these channels is not a part of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As a smaller reporting company under SEC Regulations, we are not required to provide this information.

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 principal executive officer and our principal 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 principal executive officer and our principal financial officer have concluded that, as of the date of the evaluation, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

During the six months ended June 30, 2024, no change was made to our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls 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, cannot 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

See *Note 10: Commitments, Contingencies and Taxes* of the Notes to our Condensed Consolidated Financial Statements contained in the Quarterly Report on Form 10-Q.

Item 1A. 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 business, financial condition, results of operations, and the value of our stock.

FINANCIAL RISKS

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 $323.4 million as of June 30, 2024. 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. This may result in the reduction of our cash balances or the incurrence of debt.

We have in the past and may in the future find it advisable to take measures to streamline operations and reduce expenses, including, without limitation, reducing our workforce or discontinuing certain products or businesses. Such measures may place significant strains on our management and employees, and could impair our development, marketing, sales, and customer support efforts. We may also incur liabilities from these measures. Such effects from streamlining could have a negative impact on our business and financial results.

We believe that our future revenue growth will depend on, among other factors, our ability to attract new customers, compete effectively, maximize our sales efforts, demonstrate a positive return on investment, successfully improve existing products and services, and develop successful new products and services. If we are unable to generate adequate revenue growth and manage our expenses, we may continue to incur significant losses in the future and may not be able to achieve or maintain profitability.

We received approximately 33% and 32% of our revenue from our five largest customers for the six and three months ended June 30, 2024, 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 accounted for approximately 33% and 32% of our total revenues for the six and three months ended June 30, 2024, respectively. In particular, our customers in the automotive and related services sectors account for a significant portion of our revenue.

Many of our customers are not subject to long-term contracts with us or have contracts with near term expiration dates and are able to reduce or in some cases cease spending at any time and for any reason. We have agreements with certain large customers which provide flexibility around financial commitments, termination rights, indemnification, and security obligations. Our large customers may vary spend levels and there can be no assurances that our large customers will continue to spend at levels similar to prior quarters. If any of our largest customers are acquired, such acquisition may impact its spending with us. Furthermore, our large customers from time to time may impose financial condition, data security and privacy or insurance requirements that we may not be able to satisfy. A significant reduction in 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 have a material adverse effect on our business, financial condition and results of operations.

Our large customers have substantial negotiating leverage, which may require that we agree to terms and conditions that may have an adverse effect on our business.

Our large customers have substantial purchasing power and leverage in negotiating contractual arrangements with us. These customers may seek for us to develop additional features, may require penalties for failure to deliver such features, may seek discounted product or service pricing, and may seek more favorable contractual terms. As we sell more products and services to this class of customer, we may be required to agree to such terms and conditions. Such large customers also have substantial leverage in negotiating resolution of any disagreements or disputes that may arise. Any of the foregoing factors could result in a material adverse effect on our business, financial condition, and results of operations.

If some of our customers experience financial distress or suffer disruptions in their business, 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, go out of business, or suffer disruptions in their business. If a customer with whom we do a substantial amount of business experiences financial difficulty or suffers disruptions in their business, 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.

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, 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 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 seasonality. Our experience has shown that during the spring and summer months, call volumes in certain verticals such as home services are generally higher than during other times of the year and during the latter part of the fourth quarter of the calendar year, we generally experience lower call volumes. The extent to which call volumes may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in call volumes during these periods may adversely affect our growth rate and results, and in turn, the market price of our securities. Historically, we have seen this trend generally reversing in the first quarter of the calendar year with increased call volumes and often new budgets at the beginning of the year for many of our customers with fiscal years ending December 31. However, there can be no assurances such seasonal trends will consistently repeat each year.

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 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 in certain instances for our auditors to 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.

We may be required to pay additional income, sales, or other taxes.

Tax authorities at the international, federal, state, and local levels are continually reviewing the appropriate treatment of companies engaged in digital information services. Furthermore, from time to time, various state, federal and other jurisdictional tax authorities undertake reviews of us and our filings. In evaluating the exposure associated with various tax filing positions, we may on occasion accrue charges for probable exposures. We cannot predict the outcome of any of these reviews nor whether any will have a material adverse impact on our business.

STRATEGIC RISKS

The markets in which we operate are highly competitive and rapidly changing and we may be unable to compete successfully.

There are a number of companies that offer or may develop products that compete in our targeted markets. We compete with call analytics technology providers such as Twilio and Invoca, as well as messaging platform providers such as EZ Texting. As we continue to advance our conversational analytics and related technologies, we anticipate facing increased competition from companies providing broader a broader range of products and solutions, such as Google (which offers Google Ads call tracking). The markets for our products and services are characterized by intense competition, evolving industry and regulatory standards, emerging business and distribution models, disruptive software and hardware technology developments, short product and service life cycles, price sensitivity on the part of customers, and frequent new product introductions. While we are developing and deploying features powered by artificial intelligence (AI) across our conversational analytics offerings, competitors may develop comparable or superior AI-powered features before we do, which could adversely affect our business. Current and potential competitors have established, or may establish, cooperative relationships among themselves or with third parties to increase the ability of their technologies to address the needs of our prospective customers. Furthermore, there has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue as companies attempt to strengthen or hold their market positions.

The competition in our targeted markets could adversely affect our operating results by reducing the volume of the products and services we license or sell or the prices we can charge. Some of our current or potential competitors have significantly greater financial, technical, and marketing resources than we do. These competitors may be able to respond more rapidly than we can to new or emerging technologies or changes in customer requirements. They may also devote greater resources to the development, promotion, and sale of their products than we do. To the extent they do so, market acceptance and penetration of our products and services, and therefore our revenues, may be adversely affected. Our success and long-term growth depends substantially upon our ability to enhance our products and services and to develop and introduce, on a timely and cost-effective basis, new products and services that meet changing customer requirements and incorporate technological enhancements. If we are unable to develop or acquire new products, services, functionalities, or technologies to adapt to these changes or otherwise fail to maintain a technological edge, our business will suffer.

The conversational analytics and solutions market may develop more slowly than expected, which could harm our business.

If the market for conversational analytics solutions develops more slowly than we expect, our business could suffer. Our future success is highly dependent on the increased adoption by businesses of conversational analytics and solutions, and our ability to sell our conversational analytics and solutions services to large to small customers in different verticals as well as to reseller partners and agencies. The advertising and sales market is rapidly evolving, and most businesses have historically not utilized nor allocated a portion of their marketing and/or sales budgets to conversational analytics and solutions. As a result, the future demand and market acceptance for conversational analytics and related services is uncertain.

Our business strategy is evolving and may involve pursuing new lines of business or strategic transactions and investments, some of which may not be successful.

Our industry is undergoing significant change and our business strategy is continuing to evolve to meet these changes. In order to profitably grow our business, we may need to expand into new lines of business beyond our current focus of providing call and text analytics services, which may involve pursuing strategic transactions, including potential acquisitions of, or investments in, related or unrelated businesses. In addition, we may seek divestitures of existing businesses or assets and may pursue other strategic alternatives and opportunities. There can be no assurance that we will be successful with our efforts to evolve our business strategy and we could suffer significant losses as a result, which could have a material adverse effect on our business, financial condition and results of operations.

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 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; we may seek to enter new markets where we have no or limited experience or where competitors may have stronger market positions; integrating new companies may take longer than expected; 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; acquisitions of certain companies may result in us pursuing a diversified operating or holding company structure to allow us to focus on running diverse businesses independently, but in such event we may not realize the anticipated strategic benefits; 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, including litigation; we could incur possible impairment charges related to goodwill or other intangible assets resulting from acquisitions 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.

We may decide to dispose of assets or a business that may no longer help us meet our objectives.

If we decide to sell assets or a business, we may encounter difficulty in finding buyers or alternative exit strategies on acceptable terms in a timely manner, which could delay the achievement of our strategic objectives. We may also dispose of a business at a price or on terms that are less desirable than we had anticipated. In addition, we may experience greater disruption to our remaining business than expected, and the impact of the divestiture on our revenue may be larger than projected.

OPERATIONAL RISKS

We depend on being able to secure enough phone numbers and associated telecommunication services to support our customers and other users of our services and any obstacles that we face which prevent us from meeting this demand could adversely affect our business.

We utilize phone numbers as part of a number of information and analytic services to our customers, such as our call and text analytics and communications. We secure a majority of our phone numbers through telecommunication carriers that we have contracted with and a smaller number through the 800 Service Management System, and such telecommunication carriers provide the underlying telephone service. Our telecommunications carriers and telephone number acquisition process are subject to the rules and guidelines established by the Federal Communications Commission. Furthermore, we may be directly subject to certain telecommunications-related regulations. The Federal Communications Commission and our telecommunication carriers may change the rules and guidelines for securing phone numbers or change the requirements for retaining the phone numbers we have already secured. As a result, we may not be able to secure or retain sufficient phone numbers needed for our services. We may also be limited in the number of available telecommunications carriers or vendors to provide such phone numbers and associated services to us in the event of any industry consolidations. In addition, mobile carriers in the United States and Canada have added, or are currently contemplating adding significant one-time and recurring registration requirements, including "10DLC" brand registration, and/or use limitations (e.g. messaging volume caps) for each phone number, and have imposed or are considering imposing significant additional fees as well as penalties for failure to register or certain use violations for registered numbers. Moreover, mobile carriers and our telecommunication service providers use various automated screening technologies on messaging content crossing their networks, which operate based on disparate and sometimes unpredictable sets of standards and restrictions. The application of such screening technologies to content transmitted by our customers through their use of our services may negatively impact our ability to provide services to certain customers deemed potentially problematic by carriers, subject us to financial penalties, and/or result in telecommunication service providers refusing to provide service to us. Any of the foregoing factors could result in a material adverse effect on our business, financial condition, and results of operations.

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 disasters, including, but not limited to, hurricanes, tornadoes, and earthquakes; 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, they could destroy or misappropriate valuable information, including sensitive customer information, or disrupt our operations. We have deployed firewall technology 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 to compensate us for all losses that may occur 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 customers and reseller partners, our revenue may decline, and our business could suffer.

Cybersecurity risks could adversely affect our business and disrupt our operations.

The threats to network and data security are increasingly diverse and sophisticated. Despite our efforts and processes to prevent cybersecurity incidents as further detailed in the Item 1C disclosure below, our information systems, and those of third parties that we use in our operations are vulnerable to cybersecurity threats, including cyber-attacks such as viruses and worms, phishing attacks, denial-of-service attacks, ransomware attacks, physical or electronic break-ins, employee theft or misuse, and similar disruptions from unauthorized tampering, which could lead to interruptions, delays, loss of critical data, unauthorized access to user data, and loss of customer confidence. In addition, we may be the target of email scams that attempt to acquire personal information or Company assets. Despite our efforts to create security barriers to such threats, we may not be able to entirely mitigate these risks. Any cyber-attack that attempts to obtain our or our users’ data and assets, disrupt our service, or otherwise access our systems, or those of third parties we use, if successful, could adversely affect our business, operating results, and financial condition, be expensive to remedy, and damage our reputation. In addition, any such breaches may result in negative publicity, adversely affect our brand, decrease demand for our products and services, and adversely affect our operating results and financial condition.

A failure of service by one or more third-party provider(s) of technology, telecommunication or other communication services, software or hardware that we rely on could adversely affect our business and reputation.

We rely upon third-party colocation providers to host a substantial set of our 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 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 rely upon third-party cloud providers to host certain of our products and services and this reliance is anticipated to increase over time. We may experience interruptions, delays and outages in service and availability from time to time as a result of problems with our third-party cloud providers' infrastructure. Lack of availability of this infrastructure could be due to a number of potential causes including technical failures, natural disasters, fraud or security breaches that we cannot predict or prevent. In addition, if our security, or that of any of these third-party cloud providers, is compromised, or our products and services are rendered unavailable to our customers and cannot be restored within a reasonable amount of time or at all, then our business, results of operations and financial condition could be adversely affected.

We also rely on a select group of third-party providers for various components of our technology platform and support for our services, such as hardware and software providers, telecommunications carriers and Voice over Internet Protocol (VoIP) providers, software-as-a-service providers, and credit card processors. 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. In addition, our software-as-a service providers are themselves reliant on third-party cloud providers described in the preceding paragraph such that a disruption of the availability of the underlying infrastructure may also impair their ability to maintain the availability of their services that we rely on. Furthermore, if any of these providers described in this paragraph are unable to provide the levels of service and dedicated resources over time that we require 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. Short term or repeat problems with any of these service providers could provide an interruption of service or service quality impairment to significant customers, which could also impact materially our revenue in any period due to credits or potential loss of significant customers.

If our security measures, including those of our vendors or partners, are breached or are perceived as not being secure, we may lose customers and incur significant legal and financial exposure and suffer an adverse effect on our business.

We store and transmit data and information about our customers and their respective users. We also work with vendors and partners who may come into contact with certain data, such as carriers, colocation facilities, and data processing and storage providers. We deploy security measures to protect this data and information, as do the third parties we utilize to assist in data and information processing and storage. Our security measures and those of the third parties we partner with to assist in data and information processing and/or storage, as well as to assist in the delivery of services to our customers, may suffer breaches. Security breaches of our data storage systems or our third-party colocation and technology providers we utilize to process and store data and information relating to our customers and their respective users could expose us to significant potential liability. Similarly, security breaches of our vendors and partners, or ineffective data security by our vendors or partners, may result in similar significant liability. In addition, security breaches, actual or perceived, could result in legal liability, government fines, and the loss of customers that could potentially have an adverse effect on our business. Although we maintain cyber-liability insurance, our coverage may not be adequate to compensate us for all costs and liabilities that we may incur as a result of a security breach, and our insurers may not be able to compensate us for all losses that may occur or may decline to do so for a variety of reasons.

LEGAL AND COMPLIANCE RISKS

We may not be able to protect our intellectual property rights, which could adversely affect our competitive position.

Our ability to compete across our businesses partly depends on the superiority, uniqueness and value of the technology that we develop. To protect our proprietary rights, we rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with our employees and third parties, and protective contractual provisions. These efforts to protect our intellectual property rights may not be effective in preventing misappropriation of our technology, or may not prevent the development and design by others of products or technologies similar to or competitive with those we develop.

We maintain a number of patents in the U.S. and other jurisdictions relating to various aspects of our technology. In addition to our patent portfolio, we have assembled, over time, an international portfolio of trademarks that covers certain of our products and services. We regularly analyze our patent and trademark portfolios and prepare additional patent applications on current and anticipated features of our technology and trademark applications for new product and service names, or abandon patents, trademarks or applications that are no longer relevant or valuable to our operations.

The status of any patent involves complex legal and factual questions. The scope of allowable claims is often uncertain. As a result, we cannot be sure that: (1) any patent application filed by us will result in a patent being issued; (2) that any patents issued in the future will afford adequate protection against competitors with similar technology; and (3) that the patents issued to us, if any, will not be infringed upon or designed around by others.

Despite our efforts to protect our technology and proprietary rights through intellectual property rights, licenses and other contractual protections, unauthorized parties may still copy or otherwise obtain and use our software and other technology.

In addition, we may in the future expand internationally, and effective intellectual property, copyright, trademark and trade secret protection may not be available or may be limited in foreign countries. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Further, companies in the internet, communications and technology industries may own large numbers of patents, copyrights and trademarks and may frequently threaten litigation, or file suit against us based on allegations of infringement or other violations of intellectual property rights, which may adversely affect our business or financial prospects.

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

The actual or perceived improper sending of text messages or voice calls may subject us to potential risks, including liabilities or claims relating to consumer protection laws and regulatory enforcement, including fines. For example, the Telephone Consumer Protection Act of 1991 restricts telemarketing and the sending of automatic SMS text messages without explicit customer consent. The scope and interpretation of the federal and state laws and regulations that are or may be applicable to the delivery of text messages or voice calls are continuously evolving and developing. If we do not comply with these laws or regulations or if we become liable under these laws or regulations due to the failure of our customers to comply with these laws by obtaining proper consent, we could face direct liability. We rely on contractual representations made to us by our customers that they will comply with our acceptable use restrictions and applicable law and regulations in using our services. We cannot predict whether our role in facilitating our customers' or other users' activities would expose us to liability under applicable law.

Even if claims asserted against us do not result in liability, we may incur substantial costs in investigating and defending such claims. If we are found liable for our customers' or other users' activities, we could be required to pay fines or penalties, redesign business methods or otherwise expend resources to remedy any damages caused by such actions and to avoid future liability, which could have a material adverse effect on our business, financial condition and results of operations.

Our insurance policies may not provide coverage for liability arising out of activities of our customers or other users of our services. In addition, 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.

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 operate without infringing on the intellectual property rights of others. There can be no guarantee that any of our intellectual property will not be challenged by third parties. We may be subject to patent infringement claims that would be costly to defend and could limit our ability to use certain critical technologies.

We believe that a consolidation of patent portfolios by major technology companies and independent asset holding companies will increase the chances of aggressive assertions of patent and other intellectual property claims. Within the technology, telecommunications, and online sectors, among other related sectors, we have witnessed various claim holders and alleged rights holders pursue business strategies devoted to extracting settlements or license fees for a wide range of basic and commonly accepted methods and practices.

We may be subject to those intellectual property claims in the ordinary course of our business. Also, our partners and customers may also find that they are subject to similar claims, in which case we may be included in any related process or dispute settlement. 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.

Federal, state, and foreign regulation of telecommunications and data privacy may adversely affect our business and operating results.

We provide information and analytics services to our customers and reseller partners. In connection therewith, we obtain certain telecommunications products and services from carriers in order to deliver these packages of information and analytic services.

Telecommunications laws and regulations (and interpretations thereof) are evolving in response to rapid changes in the telecommunications industry. If our carrier providers were to be subject to any changes in applicable law or regulation (or interpretations thereof), or additional taxes or surcharges, 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, our call recording and/or monitoring services may directly subject us to certain telecommunications-related regulations. Finally, in the event that any federal or state regulators were to expand the scope of applicable laws and regulations or their application to include certain end users and information service providers, then our business and operating results could also be adversely affected. The following existing and possible future federal and state laws could impact the growth and profitability of 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. To the extent we contract with and use the networks of voice over IP service providers, new legislation or FCC regulation in this area could restrict our business, prevent us from offering service or increase our cost of doing business. There are an increasing number of regulations and rulings that specifically address access to commerce and communications services on the Internet, including IP telephony. We are unable to predict the impact, if any, that future legislation, legal decisions, or regulations concerning voice services offered via the Internet may have on our business, financial condition, and results of operations.
- The U.S. Congress, the FCC, state legislatures or state agencies may target, among other things, access or settlement charges, imposing taxes related to Internet communications, imposing tariffs or other regulations based on encryption concerns, or the characteristics and quality of products and services that we may offer. Any new laws or regulations concerning these, or other areas of our business could restrict our growth or increase our cost of doing business.
- There is risk that a regulatory agency will require us to conform to rules that are unsuitable for IP communications technologies or rules that cannot be complied with due to the nature and efficiencies of IP routing, or are unnecessary or unreasonable in light of the manner in which we offer voice-related services such as call recording services to our customers.

- Federal and state telemarketing laws including the Telephone Consumer Protection Act ("TCPA") which limits the use of autodialing systems, artificial or prerecorded voice messages, SMS text messages and fax machines, the Telemarketing Sales Rule, the Telemarketing Consumer Fraud and Abuse Prevention Act and the rules and regulations promulgated thereunder. In recent years, the TCPA has become a fertile source for both individual and class action lawsuits and regulatory actions. Specifically, the TCPA restricts telemarketing and the transmission of automatic SMS text messages without proper consent. The scope and interpretation of the laws and regulations that are or may be applicable to the delivery of text messages and/or to the allowable methods of obtaining proper consent are continuously evolving and developing. If we do not comply with these laws or regulations or if we become liable under these laws or regulations due to the failure of our customers to comply with these laws by obtaining proper consent, we could face liability. In addition, certain regulatory developments in this area may adversely impact the demand for some of our services (e.g. our text analytics and communications services) if some our customers become unable to obtain proper consents for their communications at historical volumes.
- The Telephone Robocall Abuse Criminal Enforcement and Deterrence Act and the rules and regulations promulgated thereunder. The FCC has adopted an initial set of rules requiring originating and terminating voice service providers to implement the STIR/SHAKEN caller ID authentication framework to combat spoofed robocalls and is expected to adopt additional measures for that purpose. A number of our information services depend on integrations with voice service providers subject to these regulations. Some of these providers have taken the position that we must register in FCC's Robocall Mitigation Database in order to continue doing business with them even though we are not a voice service provider. If we do not comply with our providers' evolving requirements pertaining to these regulations or if future regulatory measures relative to the STIR/SHAKEN caller ID authentication framework result in unforeseen interoperability issues for our information services that we are unable to address in a timely and efficient manner, our business, financial condition, and results of operations could be negatively impacted and/or we could face liability.
- Laws affecting telephone call recording and data protection, such as consent and personal data statutes. Under the federal Wiretap Act, at least one-party taking part in a call must be notified if the call is being recorded. Under this law, and most state laws, there is nothing illegal about one of the parties to a telephone call recording the conversation. However, a number of states (i.e., California, Connecticut, Delaware, Florida, Illinois, Maryland, Massachusetts, Montana, Nevada, New Hampshire, Pennsylvania, and Washington) require that all parties consent when one party wants to record a telephone conversation. The telephone recording laws in other states, like federal law, require only one party to be aware of the recording.
- The Communications Assistance for Law Enforcement Act may require that we undertake material modifications to our platforms and processes to permit wiretapping and other access for law enforcement personnel.
- Under various Orders of the Federal Communications Commission, we 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 of our subsidiaries, and may impose additional taxes, fees or telecommunications surcharges on the provision of our services which we may not be able to pass through to customers.
- Our international operations may expose us to telecommunications regulations and data and privacy regulations in the countries where we are operating, and these regulations could negatively affect the viability of our business in those regions.

We may also be subject to costs and liabilities with respect to privacy issues. Several companies have incurred penalties for failing to abide by the representations made in their public-facing privacy policies. In addition, several states have passed laws that require businesses and their service providers to implement and maintain reasonable security procedures and practices to protect personal information and to provide notice to consumers in the event of a security breach. For example, California enacted the California Consumer Privacy Act, which was subsequently amended by the California Privacy Rights Act of 2020 (collectively, “CPRA”), which went into effect on January 1, 2023. The CPRA gives California residents rights to access, correct, and delete their personal information, opt out of certain types of personal information sharing, limit the use of sensitive personal information as well as receive detailed information about how their personal information is retained and used. The CPRA and the regulations promulgated thereunder also include requirements for provisions to be included by businesses in their respective contracts with service providers, which limit the scope of permissible use for personal data processed as part of the services and give businesses certain rights to assess their service providers’ data processing operations. The CPRA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. Virginia has enacted the Virginia Consumer Data Protection Act (“VDCPA”), which also took effect on January 1, 2023 and several other states have enacted privacy-related legislation that took effect in 2023 (e.g. Connecticut, Colorado, and Utah) or is slated to take effect in the near-term (e.g. Montana, Texas, and Iowa) and that each provide for consumer rights similar to the CPRA. Further, it is anticipated that additional federal and state privacy-related legislation may be enacted. Such legislation could negatively affect our business in various ways such as by increasing our and/or our customers’ costs of compliance. Finally, the majority of the aforementioned privacy laws and regulations do not apply to information historically regulated by certain industry-specific legislation and regulations such as the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) and/or the Gramm-Leach-Bliley Act, each of which include separate sets of security standards for the processing of covered data and provide for significant civil and/or criminal penalties for violations. To the extent that we increase our market share of conversational analytics offerings for customers in the healthcare and/or financial services industries, our risk of possible costs and liabilities related to compliance with these additional laws increases as well.

Foreign countries may enact laws that 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, eCommerce, Data Protection Directives (and similar legislation in other countries where we may have operations), the EU General Data Protection Regulation (“GDPR”), which is directly applicable to all member states and which has substantial compliance obligations and significant potential administrative fines for non-compliance, as well as the GDPR equivalent law retained by the United Kingdom and any successor legislation thereto. Any costs incurred in addressing foreign laws could negatively affect the viability of our business. Our exposure to this risk will increase to the extent we expand our operations internationally.

In addition, the potential regulation of new and emerging technologies, such as AI, which we are increasingly building into many of our new offerings, may result in increased compliance costs and risks. Any additional costs and penalties associated with increased compliance and risk mitigation could make certain offerings less profitable or increase the difficulty of bringing certain offerings to market.

We may face risks related to litigation that could result in significant legal expenses and settlement or damage awards.

From time to time, we are subject to claims and litigation, which could seriously harm our business and require us to incur significant costs.

We are generally obliged, to the extent permitted by law, to indemnify our current and former directors and officers who are named as defendants in these types of lawsuits. Defending against litigation may require significant attention and resources of management. Regardless of the outcome, such litigation could result in significant legal expenses.

If we are a party to material litigation and if the defenses we claim are ultimately unsuccessful, or if we are unable to achieve a favorable settlement, we could be liable for large damage awards that could have a material adverse effect on our business and Condensed Consolidated Financial Statements.

GENERAL RISKS

We are susceptible to general economic conditions, climate change, natural catastrophic events and public health crises, and any resulting negative impacts on our customers could adversely affect our operating results.

Our operating results will be subject to fluctuations based on general economic conditions, which are subject to a range of macroeconomic uncertainties such as labor shortages, supply chain disruptions, inflation and monetary supply shifts, among others. Any economic downturn could result in: a deterioration in the credit quality of our customers, which could adversely affect our accounts receivables; sales prospects delaying decision making and reducing propensity to purchase; challenges in servicing customers and extending and entering into new agreements; a reduction in customer budgets and slower sales cycles; customer requests for price concessions and extended payment terms; customer cancellations and inability to pay; and/or customer reconsideration and delay in launching test programs with us. Any such outcomes can cause decreases in or delays in customer spending and negatively impact our short-term ability to grow our revenues or result in significant decline in revenues, a significant decrease in our operating cash flows and/or otherwise negatively impact our results of operations.

Our business is also subject to the impact of global climate change which can increase the frequency of natural catastrophic events such as drought, wildfires, storms, sea-level rise, earthquakes, floods, or power outages. The long-term effects of climate change on the global economy and our industry in particular are unclear but could be severe.

Furthermore, global political crises such as terrorism or war, and public health crises, such as disease outbreaks, epidemics, or pandemics (including COVID-19) and their resulting impacts on the U.S. and global economies, our markets and business locations, could negatively impact our operating results.

The loss of our senior management, including other key personnel, could harm our current and future operations and prospects.

We are heavily dependent upon the continued services of members of our senior management team and other key personnel. Each member of our senior management team and other key personnel are at-will employees and may voluntarily terminate their employment with us at any time with minimal notice. Following any termination of employment, each of these members 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. The loss of the services of any member of our senior management, including other key personnel, for any reason, or any conflict among our senior management or other key personnel, could harm our current and future operations and prospects. We have experienced turnover in certain senior executives in recent years. Additional turnover at the senior management level may create instability within the Company and our employees may decide to terminate their employment, which could further impede the maintenance of our day-to-day operations. Such instability could impede our ability to implement fully our business plan and growth strategy, which would harm our business 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, property or systems suffer 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 Select 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 of 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 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 along with evolving diversity requirements for board composition. 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 Select Market could be adversely affected.

Our Class B common stock 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 and have at times declined significantly.

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: actual or anticipated fluctuations in our operating results; 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; loss of senior management or other key personnel; registration of additional shares of Class B common stock in connection with acquisitions; lawsuits initiated against us or lawsuits initiated by us; announcements of acquisitions or technical innovations; potential loss or reduced contributions from customers and reseller partners; significant volatility in the market price and trading volume of technology companies in general and of companies in our industry in particular; changes in growth or earnings estimates or recommendations by analysts; changes in the market valuations of similar companies; changes in our industry and the overall economic environment, including but not limited to uncertainty attributable to public health crises, such as disease outbreaks, epidemics or pandemics; 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 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, as amended (the "Exchange Act"); short sales, hedging and other derivative transactions on shares of our Class B common stock; and an adverse impact on us from any of the other risks cited in this Risk Factors section.

In addition, the stock market in general, and the NASDAQ Global Select Market and the market for technology companies in particular, have experienced significant 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.

If securities analysts do not continue to publish research or publish negative research about our business, our stock price and trading volume could decline.

The trading market for our Class B common stock depends in part on the research and reports that securities analysts publish about us or our business. If one or more of the analysts who covers us downgrades our stock or publishes negative research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, we could lose visibility in the market for our stock and demand for our stock could decrease, which could cause our stock price or trading volume to decline.

Our founder controls 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 December 31, 2023 and June 30, 2024, Russell C. Horowitz, our founder, beneficially owned 100% of the outstanding shares of our Class A common stock, which shares represented 75% of the voting power of all outstanding shares of our capital 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 our founder. 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.

Further, as long as our founder has a controlling interest, he 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, our founder 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 our founder 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 our founder 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, as amended, 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, as amended: 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.

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

In November 2014, we established a 2014 share repurchase program (the "2014 Repurchase Program"), which supersedes and replaces any prior repurchase programs, and authorized the Company to repurchase up to 3 million shares in the aggregate of the Company's Class B common stock. 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. During the three and six months ended June 30, 2024, we did not have any share repurchases under this program and 1,319,128 of Class B common shares remain available for purchase under the plan.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Securities Trading Plans of Directors and Executive Officers

During the three months ended June 30, 2024, no directors or officers of the Company, as defined in Rule 16a-1(f), have adopted and/or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement," each as defined in Regulation S-K Item 408.

Table of Contents

Item 6. Exhibits

Exhibit Number	Description
†31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
†31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
††32	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
†101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
†101.SCH	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents.
†104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

† Filed herewith.

†† Furnished herewith.

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.

Date: August 13, 2024	By:	/s/ Holly A. Aglio
	Name:	**Holly A. Aglio**
	Title:	**Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)**

Exhibit 31.1

**CERTIFICATION PURSUANT TO RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Edwin Miller, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Marchex, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 13, 2024

/s/ Edwin Miller

Edwin Miller
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Holly A. Aglio, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Marchex, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2024

By: /s/ Holly A. Aglio

Holly A. Aglio
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Marchex, Inc. (the "Company") for the quarter ended June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of Edwin Miller, as Principal Executive Officer, and Holly A. Aglio, as Principal Financial Officer, of the Company hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of his or her knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2024	By:	/s/ EDWIN MILLER
	Name:	**Edwin Miller**
	Title:	**Chief Executive Officer** **(Principal Executive Officer)**

Date: August 13, 2024	By:	/s/ HOLLY A. AGLIO
	Name:	**Holly A. Aglio**
	Title:	**Chief Financial Officer** **(Principal Financial Officer and Principal Accounting Officer)**