

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2022

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)
520 Pike Street, Suite 2000
Seattle, WA
(Address of principal executive offices)

35-2194038
(I.R.S Employer
Identification No.)

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)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period or 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the shares of Class B common stock on The NASDAQ Stock Market on June 30, 2022 was \$46,156,094.

The number of shares of Registrant's Class A common stock outstanding as of March 31, 2023 was 4,660,927. The number of shares of Registrant's Class B common stock outstanding as of March 31, 2023 was 38,579,075. Portions of the Registrant's Definitive Proxy Statement relating to the 2023 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 the risks, uncertainties and assumptions described in Item 1A of this Annual Report on Form 10-K under the caption “Risk Factors” and elsewhere in this report, 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.

ITEM 1. BUSINESS.

Overview

References herein to “we,” “us” or “our” refer to Marchex, Inc. (“Marchex” or the “Company”) and its wholly-owned subsidiaries unless the context specifically states or implies otherwise.

Marchex’s conversational intelligence platform, that incorporates artificial intelligence (“AI”) functionality to help with sales engagement and marketing solutions and allows businesses to turn strategic insights into the actions that can drive their most valued sales outcomes. Our multichannel voice and text capabilities help enable sales and marketing teams to deliver the buying experiences that improves their customer experiences. Marchex provides its’ conversational intelligence solutions for market-leading companies in numerous industries, including several of the world’s most innovative and successful brands.

Our mission is to empower performance improvements for our customers by giving them 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 tools 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 grow their business. We serve large enterprises with a distributed local footprint that interact with their customers across multiple communication paths.

Our primary conversational intelligence product offerings are:

- **Marchex Call Analytics.** Marchex Call Analytics is an analytics platform for enterprises that utilize inbound phone calls to drive sales, appointments and reservations. Businesses use this platform to understand which marketing channels, advertisements, search keywords, or other digital marketing advertising formats are driving calls to their business, allowing them to optimize their advertising expenditures across media channels. Additionally, the platform extracts real-time data and insights to measure the outcome of the calls and assess the return on investment for companies. The platform also includes technology that can block robocalls, telemarketers and spam calls to help save businesses time and expense. Marchex Call Analytics data can integrate directly into third-party marketer workflows such as Salesforce, Eloqua, Adobe, Google, Kenshoo, Marin Software, Meta and Instagram, in addition to other marketing dashboards and tools. Customers pay us either a fee for each call/text, for each call/text-related data element they receive, or for each phone number tracked based on pre-negotiated rates.
- **Marchex Call Analytics, Conversation Edition.** Marchex Call Analytics, Conversation Edition is a product that can enable actionable insights for enterprise, mid-sized and small businesses. It incorporates machine- and deep-learning algorithms and AI-powered conversational analysis functionality that can give customers strategic, real-time visibility into representative company performance across customer interactions. The product includes customizable dashboards and visual analytics to make it easier for marketers, salespeople, and call center teams to realize actionable insights across a growing amount of call data. According to a January 2021 Markets and Markets report, the global conversational AI market is expected to grow at a compounded annual growth rate of 22% from \$6.8 billion in 2021 to \$18.4 billion by 2026.
- **Marchex Sales Engagement.** The Marchex Sales Engagement suite of products incorporate AI-based functionality into each product, enabling businesses to understand customer conversations in phone calls and via text – in real-time and at scale – and helping them learn how to optimize the sales process in order to take the right actions to win more business. These sales engagement solutions can arm businesses with the data-driven intelligence they need to deliver on-demand and personalized customer experiences. Marchex Sonar Intelligent Messaging also provides a sales engagement solution for SMS text message-based conversations. Marchex Sales Enablement products include:

- **Marchex Engage.** Marchex Engage combines Marchex AI and machine learning with conversational call monitoring and scoring services. The product can alert businesses when potential buyers hang up without making an appointment or purchase, or also when certain calls do not meet the business' sales or customer service standards. Marchex Engage, through Action Lists, can identify in real-time when potential high-value customer prospects engaged in conversations with sales representatives are mishandled (in any number of ways) and can also give businesses the opportunity to re-engage immediately to capture these potentially lost opportunities, as well as avoid undesired customer experiences. In addition, it can give businesses a more complete picture of the in-bound opportunities they are missing, while also measuring the effectiveness and impact of capturing those opportunities through outbound engagement.
- **Marchex Spotlight.** Marchex Spotlight is a product for corporate and regional managers that can provide conversation performance insights and trends measured against corporate benchmarks across a brand or network of distributed business locations. The conversational data analyses can provide critical sales insights and proactive observations that can help enterprises boost outcomes across national and regional sales organizations.
- **Marchex Engage for Automotive.** This award-winning sales engagement product for automotive dealers unlocks the content of conversations with car buyers who have shown high purchase consideration and enables sellers to prioritize their best leads, deliver a better buying experience for consumers and take the right actions to sell more vehicles. Integration with leading dealer customer relationship manager systems ("CRM") enables sellers both make outbound calls via click-to-call from within the CRM and automatically updating the system with enriched leads as they complete each inbound or outbound conversation. Marchex Engage for Automotive was the 2021 recipient of the Product of the Year award by the BIG Awards for Business and the Sales and Marketing Technology Awards.
- **Marchex Platform Services.** Marchex Platform Services is an API-based, easy to integrate solution that allows businesses to add Marchex conversational intelligence to their existing workflows, enabling them to decode what happens in their conversations with customers. It uses the company's conversation classification technology to deliver mission-critical conversation data for sales, customer engagement and marketing teams so they can take decisive action in the course of the customer journey when it matters most. Marchex Platform Services enables businesses to obtain Marchex's AI-based functionality in Marchex's conversational intelligence platform directly within their existing communications platforms.
- **Marchex Marketing Edge.** Marchex Marketing Edge is a conversational analytics solution for marketers in enterprise, mid-sized and small businesses that depend on inbound phone calls to drive sales, appointments and reservations. The solution enables marketers to make data-driven decisions that improve marketing performance. Marketers can use this solution to understand which marketing channels, advertisements, search keywords, or other digital marketing advertising formats are driving calls to their business, enabling them to optimize their advertising expenditures across media channels. During 2021, Marchex Marketing Edge received the MarTech Best Marketing Attribution Solution award. In addition to call and text tracking, Marchex Marketing Edge also includes conversational intelligence technology that can automatically transcribe, redact and score calls. Marchex Marketing Edge seamlessly integrates with Marchex Engage so sales teams can be empowered to receive real-time text and/or email notifications when a caller showing high purchase intent ends a conversation without making an appointment or a purchase. Marchex Marketing Edge includes technology that can block robocalls, telemarketers and spam calls to help save businesses time and expense. Marchex Marketing Edge data can integrate directly into third-party systems such as Google Ads, Google Analytics, Search Ads 360, Google Campaign Manager, Microsoft Advertising, Adobe, Kenshoo, Acquisio, Salesforce and HubSpot in addition to other marketing and chat offerings.

- **Text Analytics and Communications.** Marchex Sonar Intelligent Messaging is a solution that enables sales, marketing and operations teams in businesses to engage in personal, two-way communications with field staff, prospects and customers via text/SMS messages at scale. Leveraging these communications can lead to significant increases in critical actions, customer engagement and sales conversions. Our solution is well positioned within a landscape of rising text-based communication between businesses and customers - according to a study done by Messagedesk, 76% of consumers already receive text messages from businesses and 39% of businesses are using text messaging to communicate with consumers.
- **Call Monitoring.** Marchex provides businesses the ability to gain an unbiased view into every inbound or outbound call, ranging, from providing a call recording to offering services to create customized call performance scorecards, both of which can help businesses learn more about their customers and enhance service quality and customer satisfaction. Through these services, businesses can customize the insights they want in order to improve business practices and grow faster.

We operate primarily in U.S. domestic markets.

Key Trends Driving our Industry

Understanding calls and/or texts is highly complex. Unlike clicks, impressions and other actions that are tracked and measured in digital format, calls and text messages take place offline and require unique technical capabilities and expertise to accurately measure and analyze. To realize the full benefit of call and/or text-based marketing, customers need technology that allows them to capture and analyze attributes of a call and/or text before, during and after the call and/or text is completed. This technology can connect the conversation from the placed advertisement through the interaction with the business, often with individual sales representatives, to understand the effectiveness of the marketing action. This can help better measure return on investment (“ROI”) and optimize marketing campaigns across media channels. For example, customers want to be able to dynamically track the source of a call back to the media channels and advertisements that influenced the consumer to make the call. Once a call is initiated, technology is required to understand what is happening on a call, to record anonymized calls, and to block unwanted or spam calls. For many of Marchex’s customers calls are often tracked and routed through interactive voice response (“IVR”) phone systems and integrated with customer relationship management (“CRM”) applications and back-office systems to measure transactions and ROI. Successful marketing analytics for calls and texts requires expertise from multiple disciplines, including digital advertising, communications infrastructure, voice and speech recognition expertise, and marketing software.

Mobile phone growth has changed the way customers and businesses interact. The majority of the world’s population now utilizes mobile phones and mobile phone usage is expected to continue to grow as the primary consumer communication device for the foreseeable future. According to a 2021 study published by Pew Research, 85% of the population in the United States has a smart phone. According to a 2019 eMarketer study, consumers are spending more time on their mobile devices than in front of televisions for the first time, a trend that is forecasted to grow. According to MarketingCharts, the top two uses of mobile phones among consumers are texting/messaging and calling. We believe it is critical for many businesses to develop strategies to understand their consumer engagement across multiple communication channels as consumers seamlessly shift between different forms of communication during the buying process.

For many businesses, calls and texts are critical to drive sales. For businesses of all sizes, in-bound phone calls can be a key source of new customer leads and increased revenue. We believe consumers that call or text businesses directly typically have higher purchase intent and can be more likely to make a purchase or become a customer. According to an independent research study by Forrester Consulting, the study found that phone customers convert faster, spend more, and have a higher retention rate than customers who contact brands through other channels. Based on a survey of marketing decision makers, the study found that that 60% of marketers said that those who initiate an inbound call in the course of the customer journey convert an average of 30% faster and spend an average of 28% more; 54% of marketers said that customers who initiate an inbound call have a 28% higher retention rate. In addition, according to MessageDesk, 77% of consumers prefer to talk to someone over other means of communication such as a chatbot. Calls and texts can be particularly relevant in high-value categories, such as automotive, digital agencies, home services, insurance,

telecommunications and travel and hospitality, where transaction values are large, complex or require additional information prior to completion. Calls and texts are also important for local businesses that set appointments or sell products and services over the phone.

Calls and texts are increasingly important across the business and consumer interactions due to their direct engagement and impact. We believe that the demand for businesses to connect with consumers over the phone, combined with the inherent functionality and technical capabilities of mobile devices, will result in calls and texts becoming a primary performance indicator for mobile advertising. As customers continue to shift their budgets to accommodate for the growth of mobile channels, we believe the market for conversational analytics will grow even more. In fact, the phone call has become the most popular engagement channel for a majority of U.S. customers, leapfrogging email over the past two years, according to Salesforce's State of the Connected Customer report, with 59% of consumers preferring to engage businesses over the phone, more than any other communication channel. Even as customers increase their use of multiple channels to research and buy products and services, the telephone – particularly the smartphone – has solidified its role in the purchase journey. This is driving further interest in businesses wanting to advertise on mobile devices. According to a study from App Annie, global mobile advertising grew 23% in 2021 to \$295 billion and is expected to reach \$350 billion in 2022. Calls and texts are two of the primary consumer communication methods with businesses on mobile devices and building solutions to help businesses understand their consumer interactions through these communication channels can help businesses engage and grow.

The market for our service offerings is highly competitive, rapidly evolving, and subject to changing technology and shifting customer needs. We compete with conversation analytics providers such as Twilio, EZ Texting, CallSource, CallRail, and Invoca. As we advance our data analytics technologies, the competitive landscape will increase and become broader.

Our Strategy

Innovating on Conversational Intelligence Technology and Solutions. We plan to continue to expand and invest in our conversational intelligence technology and expand our AI, data science, and machine learning capabilities. Marchex's large base of conversational data assets give it a unique advantage to continue to innovate with data science and AI to help our customers sell more and deliver a better customer experience across communication channels. We plan to continue to expand our range of call, text, and other communication channels analytics and sales engagement product capabilities by growing our conversational intelligence solutions, including AI-driven speech technology solutions, call tracking, call monitoring, text communications, keyword-level tracking, display ad impression measurement and other products as part of our owned, end-to-end, call and text-based advertising solutions. Our expanding capabilities are enabling us to develop new solutions, like sales engagement, personalization solutions and performance measurement that enable us to take advantage of our growing conversational data assets.

Supporting and Growing the Number of Customers Using Our Products and Services. We plan to continue invest in technology initiatives like Marchex Anywhere which we believe will enable us to access a wider base of businesses by offering our products to a new array of channel partners. Through these initiatives Marchex can now integrate with businesses existing communication providers, telephony infrastructure providers, or customer relationship management software system to offer its products and services. Increasingly, Marchex customers will no longer have to access separate telephony infrastructure to engage with our conversational intelligence suite of products but, instead, will be able to choose to access our products from within their existing communications provider of choice. We also plan to continue to provide a consistently high level of service and support to our conversational intelligence solutions customers and we will continue to focus on helping them achieve their return on investment goals. We are focused on increasing our customer base through our direct sales and marketing efforts, including strategic sales, inside sales, and additional partnerships with resellers.

Pursuing Selective Acquisition Opportunities. We have historically and in the future may pursue select acquisition opportunities and will apply evaluation criteria to any acquisitions we may pursue in order to enhance our strategic position, strengthen our financial profile, augment our points of defensibility and increase shareholder value. We generally focus on acquisition opportunities that represent one or more of the following characteristics:

- revenue growth and expanding margins and operating profitability or the characteristics to achieve larger scale and profitability;
- opportunities for business model, product or service innovation, evolution or expansion;
- under-leveraged and under-commercialized assets in related or unrelated businesses;
- an opportunity to enhance efficiencies and provide incremental growth opportunities for our operating businesses; and
- business defensibility.

Evolving Our Business Strategy. 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 our current lines of business as well as explore new lines of business beyond our current focus of providing mobile advertising intelligence products and 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. For example, in October 2020, we sold certain assets related to our Call Marketplace, Local Leads Platform and other assets not related to core conversational analytics.

Developing New Markets. We intend to analyze opportunities and may seek to expand our technology-based products into new business areas where our services can be replicated on a cost-effective basis, or where the creation or development of a product or service may be appropriate. We have technology integration partnerships and referral agreements with Adobe, Google Search, and Salesforce, Facebook, and other third-party marketers. We anticipate utilizing various strategies to enter new markets, including developing strategic relationships; innovating with existing proprietary technologies; acquiring products that address a new category or opportunity; and creating joint venture relationships.

Competitive Strengths and Competition

We believe that the principal factors that drive success in the market are our competitive strengths, including:

Expertise in calls and texts. The explosive growth of mobile communication platforms and vast information available to consumers on the Internet has altered the consumer buying experience. Our award-winning conversational intelligence platform featuring AI-powered sales engagement and marketing solutions helps business accelerate sales through improving their interactions with consumers over phone, text and other communication channels. As consumer usage and mobile performance advertising has grown over the last decade, it is driving growth in customer interactions through calls and texts. As one of the first companies to help businesses utilize data driven insights and analytics to accelerate sales from phone conversations, we have developed solutions which can deliver measurable return on investment to both large national brands and local small businesses through tying these offline phone conversations to their online marketing initiatives and offering sales acceleration solutions to help business create a better customer experience and grow sales. Our conversational analytics technology and products are specifically designed to help address the challenges associated with closing the loop between digital marketing and phone calls while evaluating the performance of businesses in closing sales. We are developing solutions that can provide customers insights to businesses across a broad spectrum of conversations they are having with their customers, in both voice and text communications, along with solutions to engage consumers via their preferred communication channels. Working closely with our business clients, we have innovated in conversational intelligence technology, creating specific solutions to address common needs and wants among both large enterprises and small businesses. We believe we are unique with our call- and text-focused approach to technology developments and marketing solutions, especially as advertising budgets shift towards performance-based formats and consumer communication channels with businesses expand across multiple communication channels.

Conversational Intelligence platform powered by AI augmented technology. Marchex's conversational intelligence platform delivers data into sales engagement communication tools and can provide closed loop marketing insights on offline customer interactions and operational insights to customers looking to accelerate sales and to measure the performance of their customer interactions during the sales process via multiple

communication paths including voice and text channels. When consumers call or text a business or call center from their phones, our technology can analyze that call or text data using machine and deep learning algorithms and AI-powered conversational analysis functionality that can deliver real-time conversational insights and feedback to companies on the quality of their customer interactions during the sales process as well as to identify lost business opportunities. Our data can also help customers adjust and improve their marketing strategies in order to create personalized solutions to drive more sales over the phone either directly with the business or the call center. This intelligence can help advertisers optimize their ad campaigns across media channels, keywords, and creative elements, which helps maximize their return on investment. We also provide integrations with other marketing dashboards to provide advertisers one place to review their analytics information. Integrations may take the form of working with CRM platforms or customer-specific systems, with the purpose of enhancing advertisers' understanding and measurement of outcomes at scale. We are consistently working to create products to help advertisers understand what is happening during conversations with their customers and how to spend their budgets more efficiently, whether the channel is online, offline, or mobile. Our conversational intelligence technology also can help determine which of these calls converts into a sale while helping businesses evaluate the sales effectiveness of individual store locations or even individual sales representatives at a business. Access to these insights provides businesses visibility and measurement into their ad expenditures by closing the loop with actual sales conversations. With Marchex's conversational intelligence technology, we are leveraging proprietary technology to analyze and deliver actionable advertising and operational insights to businesses that engage with consumers over the phone or via text.

Transparent pricing model. Marchex generally charges based on the number of conversations, either by call or text, that occur between a business and its customers, which it processes on behalf of the business. This enables businesses to adopt Marchex products through a transparent model that scales as a customer's usage increases and may include a minimum commitment. Through our conversational analytics technology, we can develop a deep understanding of which publishers, devices, ad formats, keywords and ad creatives drive conversation conversion for specific advertising verticals and helps optimize the placements of advertisements across different sources that drive valuable call or text leads for customers. We work with customers to define a quality call or text conversation for their business, and then generally charge our customers, on a per call or text conversation basis. Similarly, as customers look to gain critical business insights or alerts at the moment a conversation with a sales representative or business fails to produce a desired outcome, Marchex will earn a fee based on the number of conversations it applies its sales engagement technology to on behalf of the customer which may include a minimum commitment. As a result, we can provide a measurable return on investment for our customers.

Scalable technology platform and business model. We have developed our technology platform to address large customers, while also being able to support a large number of small local businesses. Our platform can support hundreds of millions of calls and thousands of unique customer accounts, and in aggregate help brands manage their advertising budgets.

Sales, Marketing & Business Development

Our sales team focuses on adding new customers to our business and growing existing customer relationships, while our business development and partnership activities focus on adding new customers, reseller partnerships and servicing existing partnerships. Our marketing team focuses on promoting our services through online customer acquisition, affiliate relationships, press coverage, strategic marketing campaigns and industry exposure. Advertising and promotion of our services is broken into the following main categories:

- **Direct Sales.** Our direct sales team targets new relationships with national and global customers and the advertising agencies that represent them through in-person presentations, direct marketing, telesales and attendance at industry events, among other methods. Our customer agreements include a combination of agency fees and cost-per-action fees.
- **Technology Integration Partnerships and Referral Agreements.** We have integration partnerships with Adobe, Google, Salesforce, Customer Relationship Management software providers and other third-party channel partners. We also have referral agreements with entities that promote our services to large numbers of potential customers including select technology partners. Our referral partner agreements are based on revenue sharing.

- **Reseller Partnerships.** We have a business development team that focuses primarily on securing partnerships with large reseller partners, under which we supply and integrate our products and services. Our reseller partner agreements include a combination of revenue and profit sharing, licensing revenue, conversational intelligence, and text conversation cost per actions.

We intend to continue our strategy of increasing our customer base through sales and marketing programs while being efficient in terms of our marketing and advertising costs. We continually evaluate our marketing and advertising strategies to optimize the effectiveness of our programs and their return on investment.

Information Technology and Systems

We have a proprietary technology platform for the purposes of managing and delivering call and cost-per-conversational analytics and texting products and services to our partners. We also combine third-party licenses and hardware to create an operating environment for delivering high quality products and services, with such features as automated online account creation and management process for customers, real-time customer support with both interactive and online reporting for customers and partners. We employ commercially available technologies and products distributed by various companies, including Cisco, Dell, Oracle, Intel, AMD, Microsoft, and IBM. We also utilize public domain software such as Apache, Linux, MySQL, PostgreSQL, Java, Scala, and Tomcat.

Our technology platform is compatible with many systems used by our customers, enabling us to deliver call and cost-per-action analytics and texting products and services through mobile, online and offline sources in rapid response to user queries made through our customers at scale. We continue to build and innovate additional functionality to attempt to meet the quickly evolving demands of the marketplace. We devote significant financial and human resources to improving our customer experiences by continuing to develop our technology infrastructure. The cost of developing our technology solutions is included in the overall cost structure of our services and is not separately funded by any individual customers. In order to maintain a professional level of service and availability, we primarily rely upon third parties to provide hosting services, including hardware support and service, and network monitoring at various domestic and international locations. Our servers and cloud-based services are configured for high availability and large volumes of call, mobile and texting based traffic and are located in leased third party facilities or deployed through cloud-based solution providers. Back-end databases make use of redundant servers and data storage arrays. We also have standby servers that provide for additional capacity as necessary. The facilities housing our servers provide redundant HVAC, power, and internet connectivity. As revenue grows and the volume of transactions and call, mobile and texting traffic increases, we will need to expand our network infrastructure. Inefficiencies in our network infrastructure to scale and adapt to higher call, mobile and texting traffic volumes could materially and adversely affect our revenue and results of operations.

We continuously review ways to improve major aspects of our technology support and maintenance, including improving, upgrading, and implementing business continuity plans, data retention initiatives, and backup and recovery processes.

Seasonality

Historically, we have experienced seasonality and we believe that we will continue to do so. Our quarterly results have fluctuated in the past and 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. Further, 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. 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.

Intellectual Property and Proprietary Rights

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.

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.

Employees

As of December 31, 2022, we employed a total of 193 full-time employees. We have never had a work stoppage, and none of our employees are represented by a labor union. We consider our employee relationships to be positive. If we were unable to retain our key employees or we were unable to maintain adequate staffing of qualified employees, particularly during peak sales seasons, our business would be adversely affected.

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 Twitter Account (<https://twitter.com/marchex>)
- Marchex Company Blog (<https://www.marchex.com/blog/>)
- Marchex LinkedIn Account (<http://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 Annual Report on Form 10-K.

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

The continuing impacts of COVID-19 are highly unpredictable and could be significant, and may have an adverse effect on our business, operations, and our future financial performance.

In late 2019, COVID-19 emerged and by early March 2020 was declared a global pandemic by the World Health Organization. Governments and municipalities around the world instituted measures in an effort to control the spread of COVID-19, including quarantines, shelter-in-place orders, school closings, travel restrictions, and closure of non-essential businesses. By the end of March 2020, the macroeconomic impacts became significant, exhibited by, among other things, a rise in unemployment and market volatility.

The global health and economic implications of this pandemic has had and is expected to continue to have significant impacts on our business, operations, and future financial performance at least for the near term. As a result of the scale of the continuing COVID-19 pandemic and the speed at which the global community has been impacted, our quarterly and annual revenue trends or growth rates and expenses as a percentage of our revenues may differ significantly from our historical trends and rates, and our future operating results may fall below expectations.

The impact of the continuing COVID-19 pandemic on our business, operations and future financial performance could include, but are not limited to: significant decline in revenues due to customers adversely impacted by the COVID-19 pandemic, including many of our larger customers (such as automotive manufacturing, automotive services, dental and health provider networks, home services, real estate, small business resellers, agencies and hospitality companies), which have seen their operations adversely impacted; significant decline in revenues as customer spending slows due to an economic downturn; significant decrease in our operating cash flows as a result of decreased customer spending and 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; continued or increased significant burn rate; challenges in servicing customers and extending and entering into new agreements; anticipated reduction in customer budgets and slower sales cycles; customer requests for price concessions and extended payment terms; customer cancellations and inability to pay; customer reconsideration and delay in launching previously slated test programs with us; our working capital needs and declining cash position; recent and potentially future losses and asset impairments; suspension of hiring initiatives; absence of debt or equity financing alternatives; and the rapid and broad-based shift to a remote working environment creates inherent productivity, connectivity, and oversight challenges. In addition, the changed environment under which we are operating could have an impact on our internal controls over financial reporting as well as our ability to meet a number of our compliance requirements in a timely or quality manner.

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 \$311 million as of December 31, 2022. 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 30% of our revenue from our five largest customers for the year ended December 31, 2022, 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 30% of our total revenues for year ended December 31, 2022. 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. We believe this risk is magnified at least for the near term by the disruption caused by the recent coronavirus outbreak. In addition, this disruption has disproportionately impacted certain business sectors, including sectors where we have significant customers such as automotive, financial services, home services and travel and hospitality. 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.

The Tax Cuts and Jobs Act of 2017 could adversely affect our business and financial condition.

On December 22, 2017, the U.S. government enacted comprehensive Federal tax legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). The Tax Act makes a U.S. federal net operating loss generally less valuable as an asset and changes use limitations. Net operating losses arising in taxable years beginning after December 31, 2017 are limited in use to offset eighty percent of taxable income, without the ability to carryback such net operating losses, but with an indefinite carryforward of such losses (instead of the former 2-year carryback and 20-year carryforward for net operating losses arising in taxable years beginning before December 31, 2017). Our ability to utilize our net operating losses is conditioned upon our achieving profitability in the future and generating U.S. federal taxable income and our operating loss carryforwards generated prior to December 31, 2017 could expire unused.

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 e-commerce and 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.

Our operations are less diversified, and we have reduced sources of revenue following the divestiture transaction, which may negatively impact the value and liquidity of our Class B common stock.

We consummated the divestiture of our media assets in October 2020, in part to focus on the conversational analytics and sales engagement solutions opportunity. Following the divestiture, the scope of our operations has been reduced in that our sources of revenue are limited to our conversational analytics business, through which we provide various analytics solutions and products, but without our former call marketplace product, local leads product or other related assets and operations. We may not be able to secure additional sources of revenue or to grow our remaining conversational analytics business, which could negatively impact the value and liquidity of our Class B common stock.

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 develop or may develop products that compete in our targeted markets. We compete with call analytics technology providers such as Twilio, Invoca, and Convirza as well as messaging platform providers such as EZ Texting. As we continue to advance our data analytics technologies, we anticipate facing increased competition from companies providing broader products and solutions, such as companies like Oracle and 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. 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 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 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 commitment of advertisers and marketers to mobile communications as an advertising and marketing medium, 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 mobile advertising and marketing market are 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.

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

Our future revenue and profits, if any, depend upon the continued widespread use of mobile technologies and the Internet as an effective commercial and business medium. Factors which could reduce the widespread use of mobile technologies (including mobile devices, in particular) and the Internet include possible disruptions or other damage to the mobile, Internet or telecommunications infrastructure and networks; failure of the individual networking infrastructures of our customers or cloud-based providers to alleviate potential overloading and delayed response times; increased governmental regulation and taxation; and actual or perceived lack of data security or privacy protection.

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

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 and communications 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, including with respect to our recent divestiture of our media assets to focus on the conversational analytics and sales engagement solutions opportunity.

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 international operations and any expansion subjects us to additional risks and uncertainties and we may not be successful with our international operations.

We have operations in Canada and through our other international subsidiaries, in other countries. We have international subsidiaries in Canada and Ireland. Any international expansion presents unique challenges and risks. Compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business in international jurisdictions and could interfere with our ability to offer our products and services to one or more countries or expose us or our employees to fines and penalties. We may also have to offer our products and services in a modified format which may not be as compelling to certain customers, and we are subject to increased foreign currency exchange rate risks and our international operations and any expansion will require additional management attention and resources. We cannot assure you that we will be successful in our international operations.

There are risks inherent in conducting business in international markets, including: the need to localize our products and services to foreign customers' preferences and customs, including the possibility of storing data locally if customers require; difficulties in managing operations due to language barriers, distance, staffing and cultural differences; application of foreign laws and regulations to us, in particular data and privacy regulations in Europe, the United Kingdom, and other international jurisdictions, including the EU General Data Protection Regulation and its UK equivalent; compliance with anti-bribery laws, such as the Foreign Corrupt Practices Act and the UK Anti-Bribery Act; tariffs and other trade barriers; fluctuations in currency exchange rates; establishing local offices, sales channels, management systems and infrastructures; reduced protection for intellectual property rights in some countries; changes in foreign political and economic conditions; compliance with the laws of numerous taxing jurisdictions, both foreign and domestic; foreign exchange controls that might prevent us from repatriating cash earned outside the United States; the complexity and potentially adverse tax consequences of U.S. tax laws as they relate to our international operations; increased costs to establish and maintain effective controls at foreign locations; and overall higher costs of doing business internationally.

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 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. In addition, as we expand our service offerings and enter into new business areas, we may be required to significantly modify and expand our software and technology platform. If we fail to accomplish these tasks in a timely manner, our business and reputation will likely suffer. Furthermore, some of these events could disrupt the economy and/or our customers' business activities and in turn materially affect our operating results.

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 breaches, our devices, as well as our servers, computer systems, and those of third parties that we use in our operations are vulnerable to cybersecurity risks, 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 with our servers and computer systems or those of third parties that we use in our operations, 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 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 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 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 our international operations, 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 be involved in lawsuits to protect or enforce our patents, which could be expensive and time consuming.

We may initiate patent litigation against third parties to protect or enforce our patent rights, and we may be sued by others seeking to invalidate our patents or prevent the issuance of future patents. We may also become subject to interference proceedings conducted in the patent and trademark offices of various countries to determine the priority of inventions. The defense and prosecution, if necessary, of intellectual property suits, interference proceedings and related legal and administrative proceedings is costly and may divert our technical and management personnel from their normal responsibilities. We may not prevail in any of these suits. An adverse determination of any litigation or defense proceedings could put our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not being issued. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, during the course of this kind of litigation, there could be public announcements of the results of hearings, motions or other interim proceedings or developments in the litigation. If securities analysts or investors perceive these results to be negative, it could have an adverse effect on the trading price of our Class B common stock.

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 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.
- 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, several states (i.e., California, Connecticut, Florida, Illinois, Maryland, Massachusetts, Michigan, 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 expanded 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 also includes new 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 additional states such as Connecticut, Colorado, and Utah have enacted privacy-related legislation slated to take effect throughout 2023 that will each provide for consumer access rights and private rights of action 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.

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 reduction 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 Consolidated Financial Statements.

We may be subject to securities litigation in connection with the divestiture transaction, which is expensive and could divert our attention.

We may be subject to securities litigation in connection with the divestiture transaction, including possible regulatory action or class action lawsuits. Litigation is frequently initiated in connection with merger and acquisition transactions, particularly those involving insiders. Regulatory inquiries and litigation are complex and could result in substantial costs, divert our management's attention and resources, and harm our business, financial condition, and results of operations.

GENERAL RISKS

We are susceptible to general economic conditions, climate change, natural catastrophic events and public health crises, and a downturn in spending by customers could adversely affect our operating results.

Our operating results will be subject to fluctuations based on general economic conditions. Deterioration in economic conditions could cause decreases in or delays in customer spending and reduce and/or negatively impact our short-term ability to grow our revenues. Further, any decreased collectability of accounts receivable or early termination of agreements due to deterioration in economic conditions could 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, 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, particularly during the current period of unprecedented employee turnover impacting virtually all businesses. 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 has 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, reseller partners and agencies; 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 (including COVID-19); 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 mobile and online commerce companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the listed companies. These broad market and industry factors may seriously harm the market price of our Class B common stock, regardless of our operating performance. In the past, following periods of volatility in the market, securities class action litigation has often been instituted against these companies.

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

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, 2022, 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.

We may not pay dividends on our Class B common stock in the future.

Under Delaware law, dividends to stockholders may be made only from the surplus of a company, or, in certain situations, from the net profits for the current or prior fiscal year. We declared and paid a special dividend in the last quarter of 2017 and the first quarter of 2018, respectively. Special dividends generally result in a reduction in stock price with the dividend distributed. In addition, we paid a quarterly dividend on our Class B common stock from November 2006 through May 2015. Our ability to pay dividends is dependent upon a variety of factors, including our financial results, liquidity and financial condition and capital requirements. There is no assurance that we will pay dividends in the future.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

Our headquarters are located in Seattle, Washington and consist of approximately 36,000 square feet of leased office space. In December 2022, we procured alternative office space in the Seattle, Washington area, which consists of approximately 12,000 square feet of leased office space. We lease additional office space in Wichita, Kansas and Mississauga, Canada. In February 2023, we exited our lease in Mississauga, Canada and may not retain alternative leased office space. Our information technology systems are hosted and maintained in third-party facilities under collocation services agreements. See Item 1 of this Annual Report on Form 10-K under the caption “Information Technology and Systems.”

We believe that our existing facilities, together with additional space we believe we can lease at reasonable market rates, are adequate for our near-term business needs.

ITEM 3. LEGAL PROCEEDINGS.

See *Note 4: Commitments and Contingencies* of the Notes to Consolidated Financial Statements contained in this Annual Report on Form 10-K.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**Market Information**

Our Class B common stock has been traded on the NASDAQ Global Select Market under the symbol "MCHX" since March 31, 2004 when we completed our initial public offering at a price of \$6.50 per share. Prior to that time, there was no public market for our Class B common stock. The following table sets forth, for the periods indicated, the high and low closing sales prices for Marchex's Class B common stock as reported on the NASDAQ Global Select Market:

	<u>High</u>	<u>Low</u>
Year Ended December 31, 2021		
First Quarter	\$ 3.63	\$ 2.02
Second Quarter	\$ 3.16	\$ 2.36
Third Quarter	\$ 3.31	\$ 2.45
Fourth Quarter	\$ 3.54	\$ 2.48
Year Ended December 31, 2022		
First Quarter	\$ 2.63	\$ 1.76
Second Quarter	\$ 2.35	\$ 1.25
Third Quarter	\$ 2.23	\$ 1.24
Fourth Quarter	\$ 1.89	\$ 1.34

Holders

As of March 31, 2023, there was 1 stockholder of record of our Class A common stock and there were approximately 40 stockholders of record of our Class B common stock, respectively. Since many of our shares of Class B common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Issuer Purchases of Equity Securities

In November 2014, we established a 2014 share 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. During the fourth quarter of 2022, we did not have any shared repurchases under this program and 1,319,128 Class B common shares remain available for purchase under the plan.

ITEM 6. SELECTED FINANCIAL DATA.

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with the audited consolidated financial statements and the notes to those statements which appear elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements. Please see page 1 on this Annual Report on Form 10-K "Forward-Looking Statements" and Item 1A of this Annual Report on Form 10-K under the caption "Risk Factors" for a discussion of the risks, uncertainties and assumptions associated with these statements.

Overview

Marchex's conversational intelligence platform, that incorporates AI functionality to help with sales engagement and marketing solutions, helps businesses turn strategic insights into the actions that can drive their most valued sales outcomes. Our multichannel voice and text capabilities help enable sales and marketing teams to deliver the buying experiences that improves their customer experiences. Marchex provides its' conversational intelligence solutions for market-leading companies in numerous industries, including several of the world's most innovative and successful brands.

We believe that we have a set of tools for enterprises that depend on phone calls, texts, and other communication channels to help convert prospects into customers, to deliver compelling customer experiences during the sales process and maximize returns. Our mission is to help our customers grow by giving them real-time insights into the conversations they are having with their customers across phone, text, and other communication channels. Marchex leverages proprietary data and conversational insights to deliver real-time AI-powered functionality that drives solutions that help enable brands to personalize customer interactions in order to accelerate sales and grow their business.

We were incorporated in Delaware on January 17, 2003.

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

Recent Developments

New Product Launch

In March 2022, Marchex announced that it has launched Marchex Conversation DNA. This core technology enables voice and text conversation decoding, scoring, categorization and signal delivery across every Marchex conversational intelligence product. Conversation DNA uses Marchex's proprietary AI infrastructure built to uncover relevant insights – such as what customers want and what they are searching for – from a library of more than one billion minutes of voice conversations and hundreds of millions of text messages the company processes each year. These valuable AI signals can help businesses understand how to anticipate customer needs in order to deliver highly personalized experiences.

Business Update

For our fiscal year ended December 31, 2022, our revenue was \$52.2 million, which decreased by \$1.3 million, or 2%, compared to \$53.5 million for the fiscal year ended December 31, 2021. The decrease is attributable primarily to lower conversational volumes as compared to the second and third quarter of 2021 during which we benefited from an initial recovery of the U.S. economy as the COVID-19 pandemic subsided. In addition, we believe our 2022 revenue was impacted by the lingering issues related to the resurgence of new COVID-19 variants, supply chain disruptions, inflationary pressures, and labor shortages. Although we remain cautious about the recovery of the U.S. economy, in the event these macro-conditions subside, we believe we may be able to make progress by opening more opportunities with our existing and new customers and in new verticals through multiple product offerings and our continued product innovation.

We believe our operating expenses still have prospective opportunity for further efficiencies as we make advancements in our technology infrastructure and cloud initiatives. Moving portions of our technology infrastructure to the cloud enables us to innovate through scale and a common architecture.

See the Notes to Consolidated Financial Statements for additional information. For additional information for the effects of the COVID-19 pandemic and resulting global disruptions on our business and operations, refer to “Results of Operations” within this discussion and analysis and Item 1.A of Part I, “Risk Factors.”

Divestiture

In October 2020, we sold certain assets related to the Local Leads Platform, Call Marketplace and other assets not related to core conversational analytics (the “Divestiture”). The purchaser is a related party controlled by a shareholder and officers of the Company. We maintained a minority equity interest in the entity into 2021, at which time it was sold in 2021 to an unrelated party.

In connection with the closing, we entered into an administrative support services agreement with the purchaser (the “SSA”) pursuant to which we provide administrative services to the purchaser for a support services fee, with certain guaranteed payments to us of \$3.5 million in the first year and \$1.5 million in the second year following closing. The SSA had an initial term of two (2) years from closing and renews for successive one (1) year terms unless either party provides at least six (6) months written notice of nonrenewal. We continue to anticipate that the scope of the administrative services provided under the SSA and associated support services fees received by the Company may further decrease over time.

Technology Infrastructure and Cloud Initiatives

We made advancements in our technology infrastructure and cloud initiatives. In 2022, we were able to advance the build out of our platform, which helped reduce our operating expenses compared to the prior year. We are focused on moving portions of our technology infrastructure to the cloud which helps enable us to innovate through scale and a common architecture.

Factors Affecting our Performance

We utilize phone numbers as part of a number of analytics services to our customers such as our call and text analytics and communications. If we are not able to secure or retain sufficient phone numbers needed for our services or we are limited in the number of available telecommunication carriers or vendors to provide such phone numbers to us in the event of any industry consolidation or if telecommunication carriers or vendors were to experience system disruptions, our revenue and results of operations may be materially and adversely affected. We anticipate that these variables will fluctuate in the future, affecting our ability to grow and our financial results. In particular, it is difficult to project call and text usage, the number of calls or texts or other actions performed by users of our services.

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. However, there can be no assurances such seasonal trends will consistently repeat each year. 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.

In addition, as discussed elsewhere in this report, we have and may continue to experience impacts from quarantines, market downturns and changes in customer behavior related to the pandemic. 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, successfully improve existing analytics products and sales engagement solutions, and develop successful new products and solutions. If we are unable to generate adequate revenue growth and to manage our expenses, we may continue to incur significant losses in the future and may not be able to achieve or maintain profitability.

Climate Change

We have considered specific risks associated as a result of climate change legislation or regulation and determined that in their current form, legislation or regulation is not reasonably likely to have a material effect on our financial condition or results of operations. However, further iteration of the proposed legislation may yield different results.

Components of the Results of our Operations

Revenue

We generate the majority of our revenues from core analytics and solutions services. Our call analytics technology platform provides data and insights that can measure the performance of calls and texts for our customers. We generate revenue from our call analytics technology platform when 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; bandwidth and software license fees; network operations; 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, creation and enhancement of our products and services.

Our research and development expenses include payroll and related expenses for personnel; costs of computer hardware and software; costs incurred in developing features and functionality of the services we offer; and stock-based compensation of related personnel.

For the periods presented, substantially all of our product development expenses are research and development. Product development costs are expensed as incurred or capitalized into property and equipment in accordance 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 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; tradenames. 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 table presents revenue and certain of our operating results as a percentage of revenue:

(In Thousands, Except Percentages)	Year Ended December 31, 2021	% of revenue	Year Ended December 31, 2022	% of revenue
Revenue	\$ 53,476	100%	\$ 52,170	100%
Expenses:				
Service costs	\$ 21,694	41%	\$ 20,462	39%
Sales and marketing	13,549	25%	13,517	26%
Product development	16,112	30%	14,355	28%
General and administrative	9,294	17%	9,787	19%
Amortization of intangible assets from acquisitions	4,481	8%	2,124	4%
Acquisition and disposition related costs (benefits)	142	0%	74	0%
Total operating expenses	65,272	122%	60,319	116%

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

(In Thousands)	Year Ended December 31,	
	2021	2022
Service costs	\$ 49	\$ 171
Sales and marketing	870	796
Product development	296	293
General and administrative	1,459	1,386
Total stock-based compensation	\$ 2,674	\$ 2,646

See Note 6: *Stockholders' Equity* (b). Stock Option Plan of the Notes to Consolidated Financial Statements, as well as our Critical Accounting Policies for additional information about stock-based compensation.

Revenue

Revenue decreased \$1.3 million, or 2%, from \$53.5 million for the year ended December 31, 2021 to \$52.2 million for the year ended December 31, 2022. This decrease was impacted primarily by lower conversational volumes in 2022 as compared to 2021.

In the immediate near term, we expect our revenues to be similar compared to the most recent quarter as we continue to see macroeconomic pressures on certain customer segments. While we believe the U.S economy has the opportunity to expand, we expect our results to be volatile in the near term as we continue to experience lingering issues related to the resurgence of new COVID-19 variants, supply chain disruptions, inflationary pressures, and labor shortages.

In the longer term, we believe that our new product releases and growth initiatives may enable the Company to progress, resulting in an opportunity for potential revenue growth. Prospective customers have indicated that they plan to initiate trials and there are existing customers that are considering the breadth of our product offerings, which would result in new revenue opportunities.

For additional discussion of trends and other factors in our business, refer to Industry and Market Factors in Item 2 of this Annual Report on Form 10-K.

Expenses

Service Costs. Service costs decreased \$1.2 million, or 6%, from \$21.7 million for the year ended December 31, 2021 to \$20.5 million for the year ended December 31, 2022. As a percentage of revenues, service costs were 41% and 39% for the year ended December 31, 2021 and 2022, respectively. The decrease in dollars and percentage of revenue was primarily due to \$1.3 million of lower network costs due to our infrastructure initiatives, which include cloud migration initiatives, certain platform integrations and other initiatives and \$433,000 of higher support service fees recovery. These were partially offset by \$416,000 of higher personnel costs and stock-based compensation.

We expect in the near and intermediate term that service costs in absolute dollars will be similar to or modestly higher in relation to the most recent period. There may be a positive impact on service costs as a percentage of revenue and further benefit in the event we generate contribution from new launches of analytics products and sales engagement solutions.

Sales and Marketing. Sales and marketing expenses were \$13.5 million for the year ended December 31, 2021 and 2022. As a percentage of revenue, sales and marketing expenses were 25% and 26% for the year ended December 31, 2021 and 2022, respectively. The change from the prior year was primarily attributable to lower marketing costs of \$536,000 and higher support service fees recovery of \$321,000. These were partially offset by higher travel related costs \$392,000 and personnel costs of \$381,000.

We expect some volatility in sales and marketing expenses based on the timing of marketing initiatives but, in consideration of some operating and personnel measures in the first part of 2023, we expect sales and marketing expenses in the near term 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 as a percentage of revenue. We also believe going forward our travel related costs will increase as pandemic related impacts abate.

Product Development. Product development expenses decreased \$1.8 million, or 11%, from \$16.1 million for the year ended December 31, 2021 to \$14.4 million for the year ended December 31, 2022. As a percentage of revenue, product development expenses were 30% and 28% for the year ended December 31, 2021 and 2022, respectively. The net decrease in dollars and as a percentage of revenue was primarily attributable to a decrease in personnel costs totaling \$1.4 million and higher support services fees recovery of \$164,000.

We expect that product development expenses will be relatively stable in absolute dollars in the near term due to our technology infrastructure and cloud initiatives offset by a modest increase in the number of personnel and consultants to enhance our service offerings

General and Administrative. General and administrative expenses increased \$500,000 or 5%, from \$9.3 million for the year ended December 31, 2021 to \$9.8 million for the year ended December 31, 2022. As a percentage of revenue, general and administrative expenses were 17% and 19% for the year ended December 31, 2021 and 2022, respectively. The net increase in dollars was primarily attributable to lower support services fees recovery of \$592,000, \$296,000 of higher amortization and depreciation related to a hosting software licensing arrangement and software development costs, and higher travel costs of \$144,000. The increase was partially offset by \$485,000 of lower personnel and outside service provider costs and \$162,000 of lower corporation registration fees.

We also expect our general and administrative expenses to increase to the extent that we expand our operations and incur additional costs in connection with being a public company and regulatory updates including expenses related to professional fees and insurance, as well as a result of stock-based compensation expense. We also expect fluctuations in our general and administrative expenses to the extent the recognition timing of stock compensation is impacted by market conditions relating to our stock price. In addition, we anticipate that our general and administrative expenses may be adversely impacted by the continuing macro-economic headwinds at least for the near term.

Amortization of Intangible Assets from Acquisitions. Intangible amortization expenses were \$4.5 million and \$2.1 million for the year ended December 31, 2021 and 2022, respectively. The expense was associated with amortization of intangible assets acquired in the Callcap, Sonar, and Telmetrics acquisitions. During 2021 and 2022, the amortization of intangibles related to service costs, sales and marketing and general and administrative expenses.

Acquisition and Disposition-related Benefits. The change in the acquisition and disposition-related expense from \$142,000 for the year ended December 31, 2021 to \$74,000 for the year ended December 31, 2022.

Loan Extinguishment. In the second quarter of 2020, we received loans through the CARES Act. In the third quarter of 2021, we were legally released from our obligation and recognized a \$5.2 million gain on loan extinguishment for the year ended December 31, 2021.

Interest Income and Other, net. The interest income and other, net for the year ended December 31, 2021 and 2022 was \$2.5 million and \$88,000, respectively. In the second quarter 2021, we received a one-time payment related to a contractual settlement of an upside payment with previously divested properties.

Income Tax. The income tax for the years ended for the year ended December 31, 2021 and 2022 was \$232,000 and \$184,000, respectively. The income tax expense for the year ended December 31, 2021 and 2022 consisted primarily of state income taxes. The effective tax rate differed from the expected tax rate of 21% primarily due to a full valuation allowance as well as to a lesser extent non-deductible stock-based compensation related to incentive stock options recorded under the fair-value method and other non-deductible amounts.

At December 31, 2022, based on all the available evidence, both positive and negative, we determined that it is not more likely than not that our deferred tax assets will be realized and accordingly, we have recorded a 100% valuation allowance of \$51.8 million against our net deferred tax assets (\$52.9 million of deferred tax assets that are partially offset by \$1.3 million in reversing deferred tax liabilities). This compares to a 100% valuation allowance of \$49.6 million at December 31, 2021 (\$50.9 million of deferred tax assets that are partially offset by \$1.4 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. We have incurred federal taxable losses in 2021 and 2022.

Net Loss. Net loss increased \$3.9 million, or 88%, from \$4.4 million in 2021 compared to \$8.2 million in 2022. The increase in the net loss for the year ended December 31, 2022 was primarily attributable to a \$5.2 million gain on loan extinguishment and a one-time payment of \$2.5 million in fiscal year 2021 partially offset by lower product development and service costs expenditures in 2022.

Liquidity and Capital Resources

As of December 31, 2021 and 2022, we had cash and cash equivalents of \$27.1 million and \$20.5 million, respectively. As of December 31, 2022, we had current and long-term contractual obligations of \$6.1 million, of which \$3.4 million is for rent under our facility operating leases.

Cash used in operating activities was \$2.3 million during the year ended December 31, 2022. The cash used in operating activities was primarily a result of a net loss of \$8.2 million, adjusted for non-cash items of \$7.6 million, which primarily included depreciation and amortization and stock-based compensation partially offset by changes in working capital of \$1.7 million. The change in working capital was driven primarily by an increase in accounts receivable as well as a decrease in deferred revenue and accrued expenses partially offset by an increase in accounts payable. Cash used in operating activities was \$6.3 million during the year ended December 31, 2021. The cash used in operating activities was primarily a result of a net loss of \$4.4 million, adjusted for non-cash items of \$3.8 million, which primarily included depreciation and amortization, stock-based compensation, and a gain on loan extinguishment, offset by changes in working capital of \$5.8 million. The change in working capital was driven primarily by a decrease in accrued expenses and other current liabilities as well as increases in accounts receivable and other current asset balances. Our cash used in operating activities benefited from cash inflow of \$2.5 million related to settlement of a contractual matter and \$444,000 related to foreign government paycheck assistance and rent subsidies.

We expect that, at least for the near term, our revenues may continue to recover if macroeconomic conditions improve and business interruptions subside resulting in increased demand for our products and services. However, we continue to monitor the potential disruptions caused by future iterations of COVID-19 and supply chain issues that have ensued, which could cause our revenues to be lower than current levels if customers are unable to procure our services at the same volumes as previously. The adverse impact would reduce our operating cash flows and liquidity going forward.

Cash used in investing activities for the year ended December 31, 2022 was \$2.9 million and was primarily attributable to cash paid for purchases of property and equipment as well as capitalized software development costs. Cash used in investing activities for the year ended December 31, 2021 was \$951,000 primarily attributable to cash paid for purchases of property and equipment as well as capitalized software development costs offset by proceeds for the sale of our minority equity interest. In the first quarter of 2023, we entered into a financing lease agreement for up to \$1.0 million for the procurement of server equipment and with current borrowing of \$451,000.

We expect property and equipment purchases in the near and intermediate term to be similar to our most recent periods. We expect any increase to our operations to have a corresponding increase in expenditures for our systems and personnel. In consideration of initiatives related to an increase in our operations, we expect our expenditures for product development initiatives will be relatively stable to modestly higher in the near and intermediate term and increase in the longer term in absolute dollars with any acceleration in development activities and as we increase the number of personnel and consultants to enhance our service offerings. In the

intermediate to long term, we also expect to increase the number of personnel supporting our sales and marketing and related growth initiatives.

Cash used by financing activities was \$1.5 million during the year ended December 31, 2022. The cash used by was primarily attributable to the exchange of cash consideration for partial settlement of a contractual obligation partially offset by proceeds from stock options exercises and the employee stock purchase program. Cash provided by financing activities was \$528,000 during the year ended December 31, 2021. The cash provided was primarily attributable to proceeds from stock option exercise and the employee stock purchase program. In the third quarter of 2021, we were legally released from our obligation as our application was approved by the SBA. Therefore, we recognized a non-cash gain of approximately \$5.1 million for the forgiveness of our principal.

In November 2014, our 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, we are authorized to repurchase up to 3 million shares of our Class B common stock in the aggregate through open market and privately negotiated transactions, at such times and in such amounts as we deem appropriate. Repurchases may also be made under a Rule 10b5-1 plan, which would permit shares to be repurchased when we might otherwise be precluded from doing so under insider trading laws. We have made no repurchases under the 2014 Repurchase Program for the years ended December 31, 2021 and 2022.

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 the length and severity of the pandemic and 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 Consolidated Financial Statements have been prepared using accounting principles generally accepted in the United States (U.S. GAAP). Our critical accounting policies are those that we believe have the most significant impact to reported amounts of assets, liabilities, revenue and expenses and the related disclosures of contingent assets and liabilities and that require the most difficult, subjective, or complex judgements.

The policies below are critical to our business operations and the understanding of our results of operations. In the ordinary course of business, we make a number of estimates and assumptions relating to the reporting of our results. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully described in *Note 1: Description of Business and Summary of Significant Accounting Policies and Practices*, we believe the following topics reflect our critical accounting policies and our more significant judgement and estimates used in the preparation of our financial statements.

Principles of Consolidation

Our Company consolidates all entities that we control by ownership of a majority voting interest. Additionally, there are situations in which U.S. GAAP requires consolidation even though the usual condition of consolidation (ownership of a majority voting interest) does not apply. Generally, this occurs when an entity holds an interest in another business enterprise that was achieved through arrangements that do not involve voting interests, which results in a disproportionate relationship between such entity's voting interests in, and its exposure to the economic risks and potential rewards of, the other business enterprise. This disproportionate

relationship results in what is known as a variable interest, and the entity in which we have the variable interest is referred to as a "VIE." An enterprise must consolidate a VIE if it is determined to be the primary beneficiary of the VIE. The primary beneficiary has both (1) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Our Company held a remaining interest in the related party purchaser of our divested operations, for which we determined we were not the primary beneficiary. At the time, our variable interests in this VIE primarily relate to the issuance of a 10% equity interest in the related party purchaser; contingent consideration related to the transaction; and an administrative support services arrangement. We sold our equity interest in Q3 2021. Although this financial arrangement resulted in our holding variable interests in this related party entity, it did not empower us to direct the strategic and operational activities of the VIE that most significantly impact the VIE's economic performance.

All inter-company transactions and balances have been eliminated in consolidation. Certain reclassifications have been made to the Consolidated Financial Statements in the prior periods to conform to the current period presentation.

Revenue

We generate the majority of our revenues from core analytics and solutions services. Our call analytics technology platform provides data and insights that can measure the performance of calls and texts for our customers. We generate revenue from our call analytics technology platform when customers pay us a fee for each 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. As such, the majority of 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).

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. 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.

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 we would sell a promised good or service separately to a customer or the estimated standalone selling price.

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.

Stock-Based Compensation

FASB ASC Topic 718, *Compensation – Stock Compensation* (ASC 718) requires the measurement and recognition of compensation for all stock-based awards made to employees, non-employees and directors including stock options, restricted stock issuances, and restricted stock units be based on estimated fair values. We account for forfeitures as they occur. 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 generally use the Black-Scholes option pricing model as our method of valuation for stock-based awards with time-based vesting. Our determination of the fair value of stock-based awards on the date of grant using an option pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the expected life of the award, our expected stock price, volatility over the term of the award and actual and projected exercise behaviors.

Although the fair value of stock-based awards is determined in accordance with ASC 718, *Compensation – Stock Compensation* the assumptions used in calculating fair value of stock-based awards and the use of the Black-Scholes option pricing model is highly subjective, and other reasonable assumptions could provide differing results. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. See *Note 6: Stockholders' Equity(b). Stock Option Plan* in the Notes to Consolidated Financial Statements for additional information.

Allowance for Doubtful Accounts and Advertiser Credits

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

We determine our allowance for advertiser credits and adjustments based upon our analysis of historical credits. Material differences may result in the amount and timing of our revenue for any period if our management made different judgments and estimates.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed in business combinations accounted for under the purchase method. Intangible assets from acquisitions represent customer relationships, technologies, non-compete agreements, and tradenames related to previous acquisitions. 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.

We apply the provisions of the FASB ASC Topic 350, "Intangibles - Goodwill and Other" (ASC 350) whereby assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead test for impairment at least annually. According to FASB ASC 360, "Property Plant and Equipment" (ASC 360), intangible assets with definite useful lives should be amortized over the respective estimated lives to their estimated residual values and reviewed for impairment. Intangible assets are "grouped" and evaluated for impairment at the lowest level of identifiable cash flows.

Goodwill is tested annually on November 30 for impairment. Goodwill and intangible assets are also tested more frequently if events and circumstances indicate that the assets might be impaired. The provisions of the accounting standard for goodwill and other intangible assets allow us to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. Events and circumstances considered in determining whether the carrying value of goodwill and intangible assets may not be recoverable include but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; and significant changes in competition and market dynamics. These estimates are inherently uncertain and can be affected by numerous factors, including changes in economic, industry or market conditions, changes in business operations, a loss of a significant customer, changes in competition or changes in the share price of common stock and market capitalization. If our stock price were to trade below book value per share for an extended period of time and/or we experience adverse effects of a continued downward trend in the overall economic environment, changes in the business itself, including changes in projected earnings and cash flows, we may have to recognize an impairment of all or some portion of our goodwill and intangible assets. An impairment loss is recognized to the extent that the carrying amount exceeds the asset or asset group's fair value. If the fair value is lower than the carrying value, a material impairment charge may be reported in our financial results. We exercise judgment in the assessment of the related useful lives of intangible assets, the fair values, and the recoverability. In certain instances, the fair value is determined in part based on cash flow forecasts and discount rate estimates. We cannot accurately predict the

amount and timing of any impairment of goodwill or intangible assets. Should the value of goodwill or intangible assets become impaired, we would record the appropriate charge, which could have an adverse effect on our financial condition and results of operations.

Any future impairment charges could have a material adverse effect on our financial results.

Provision for Income Taxes

We are subject to income taxes in the U.S. and certain international jurisdictions. Judgment is required in evaluating our uncertain tax positions and determining our 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.

We determined that it is not more likely than not that our deferred tax assets (excluding certain insignificant Canadian deferred tax assets) will be realized and accordingly recorded 100% valuation allowance against these deferred tax assets as of December 31, 2021 and 2022. In assessing whether it is more likely than not that our deferred tax assets will be realized, factors considered included: historical taxable income, historical trends related to advertiser usage rates, projected revenues and expenses, macroeconomic conditions, issues facing the industry, existing contracts, our 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. We 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, we concluded that it is not more likely than not that the gross deferred tax assets will be realized.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Marchex, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Marchex, Inc. and subsidiaries (the Company) as of December 31, 2022, the related consolidated statements of operations, stockholders' equity and cash flows, for the year then ended, and the related notes (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgment. The communication of a critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Audit Response for Occurrence of Revenues

As described in Note 1 of the consolidated financial statements, the Company generates its revenues through a significant volume of low-dollar transactions tracked and recorded in a highly automated process within the Company's internally developed information technology systems. The Company recognizes revenue from its call analytics technology platform when customers pay a fee for each qualified transaction generated per the terms of the customer contract. Revenue is recognized over time as the service is performed.

We identified the Company's revenue as a critical audit matter as the processes to track and record revenues are highly automated. These internally developed systems are complex and require an increased audit effort around assessing the reliability of data.

Our audit procedures related to the Company's revenue included substantively testing a sample of the Company's revenue and performing the following audit procedures, among others:

- a) We obtained and reviewed the customer invoice, the supporting call log data from the Company's internal tracking system relating to the invoiced period, and the underlying customer contracts;
- b) We recalculated the invoiced amount based on the call and/or text volume, agreeing the terms and conditions to the customer contract for the pricing arrangement;
- c) We evaluated performance obligations, the applicable billing period, and agreed to the customer billing and recorded revenue during the selected period;
- d) Verified the existence of call data by listening to a sample of recorded calls, or text message data by viewing a sample of text logs and traced to cash received for samples selected.

We have served as the Company's auditor since 2022.

/s/ RSM LLP US

Seattle, Washington
March 31, 2023

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Marchex, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Marchex, Inc. and subsidiaries (the “Company”) as of December 31, 2021, the related consolidated statements of operations, stockholders’ equity and cash flows for the year then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2021, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Moss Adams LLP

Seattle, Washington

March 29, 2022, except for the effects of the revisions to correct deferred taxes described in Note 5, as to which the date is March 31, 2023.

We served as the Company’s auditor from 2017 to 2022.

MARCHEX, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In Thousands, Except Per Share Amounts)	As of December 31,	
	2021	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 27,086	\$ 20,474
Accounts receivable, net	8,021	8,396
Prepaid expenses and other current assets	2,407	2,015
Total current assets	37,514	30,885
Property and equipment, net	2,817	4,050
Other assets, net	986	973
Right-of-use lease asset	2,238	738
Goodwill	17,558	17,558
Intangible assets from acquisitions, net	4,714	2,590
Total assets	<u>\$ 65,827</u>	<u>\$ 56,794</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,363	\$ 2,037
Accrued benefits and payroll	3,631	3,566
Other accrued expenses and current liabilities	3,869	3,825
Deferred revenue and deposits	2,016	1,384
Lease liability current	1,794	1,252
Total current liabilities	12,673	12,064
Deferred tax liabilities	186	233
Lease liability non-current	1,466	385
Total liabilities	14,325	12,682
Commitments and contingencies - See Note 4		
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, 2021 and 2022	49	49
Class B: 125,000 shares authorized; 37,391 shares issued and outstanding at December 31, 2021, including 965 shares of restricted stock; and 38,497 shares issued and outstanding at December 31, 2022, including 1,105 shares of restricted stock	374	385
Additional paid-in capital	354,155	354,999
Accumulated deficit	(303,076)	(311,321)
Total stockholders' equity	51,502	44,112
Total liabilities and stockholders' equity	<u>\$ 65,827</u>	<u>\$ 56,794</u>

See accompanying Notes to Consolidated Financial Statements.

MARCHEX, INC. AND SUBSIDIARIES
Consolidated Statements of Operations

(In Thousands, Except Per Share Amounts)	Years Ended December 31,	
	2021	2022
Revenue	\$ 53,476	\$ 52,170
Expenses:		
Service costs (1)(3)	21,694	20,462
Sales and marketing (1)(3)	13,549	13,517
Product development (3)	16,112	14,355
General and administrative (1)(3)	9,294	9,787
Amortization of intangible assets from acquisitions (2)	4,481	2,124
Acquisition and disposition related benefits	142	74
Total operating expenses	65,272	60,319
Loss from operations	(11,796)	(8,149)
Gain on loan extinguishment	5,185	—
Interest income and other, net	2,453	88
Loss before provision for income taxes	(4,158)	(8,061)
Income tax expense (benefit)	232	184
Net income loss applicable to common stockholders	\$ (4,390)	\$ (8,245)
Basic and diluted net income (loss) per Class A share applicable to common stockholders	\$ (0.10)	\$ (0.19)
Basic and diluted net income (loss) per Class B share applicable to common stockholders	\$ (0.10)	\$ (0.19)
Shares used to calculate basic net loss per share applicable to common stockholders:		
Class A	4,661	4,661
Class B	39,256	38,560
Shares used to calculate diluted net loss per share applicable to common stockholders:		
Class A	4,661	4,661
Class B	43,917	43,221
(1) Excludes amortization of intangibles from acquisitions		
(2) Components of amortization of intangibles from acquisitions:		
Service costs	\$ 2,248	\$ 467
Sales and marketing	2,121	1,657
General and administrative	112	-
Total	\$ 4,481	\$ 2,124
(3) Components of related party support services fee recovery		
Service costs	\$ 2,848	\$ 2,648
Sales and marketing	523	742
Product development	1,682	1,612
General and administrative	1,554	1,396
Total	\$ 6,607	\$ 6,398

See accompanying Notes to Consolidated Financial Statements.

MARCHEX, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity

(In Thousands)	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, 2020	4,661	\$ 49	36,462	\$ 365	—	—	\$ 350,960	\$ (298,686)	\$ 52,688
Issuance of common stock upon exercise of options, issuance and vesting of restricted stock and under employee stock purchase plan, net	—	—	648	6	—	—	524	—	530
Stock-based compensation from options and restricted stock, net of forfeitures	—	—	—	—	—	—	2,674	—	2,674
Repurchase and retirement of treasury stock	—	—	—	—	(23)	—	—	—	—
Issuance of Class B common stock in connection with prior deferred issuance from acquisition	—	—	281	3	—	—	(3)	—	—
Net loss	—	—	—	—	—	—	—	(4,390)	(4,390)
Balance at December 31, 2021	4,661	\$ 49	37,391	\$ 374	(23)	—	\$ 354,155	\$ (303,076)	\$ 51,502
Issuance of common stock upon exercise of options, issuance and vesting of restricted stock and under employee stock purchase plan, net	—	—	654	6	—	—	33	—	39
Stock-based compensation from options and restricted stock, net of forfeitures	—	—	—	—	—	—	2,646	—	2,646
Repurchase and retirement of treasury stock	—	—	(23)	—	23	—	—	—	—
Issuance of Class B common stock in connection with prior deferred issuance from acquisition	—	—	475	5	—	—	(5)	—	—
Settlement of a contractual obligation	—	—	—	—	—	—	(1,830)	—	(1,830)
Net loss	—	—	—	—	—	—	—	(8,245)	(8,245)
Balance at December 31, 2022	4,661	\$ 49	38,497	\$ 385	—	—	\$ 354,999	\$ (311,321)	\$ 44,112

See accompanying Notes to Consolidated Financial Statements.

MARCHEX, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

(In Thousands)	Years Ended December 31,	
	2021	2022
Cash flows from operating activities:		
Net loss applicable to common stockholders	\$ (4,390)	\$ (8,245)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization and depreciation	5,970	4,033
Allowance for doubtful accounts and advertiser credits	435	906
Deferred income taxes	(6)	43
Stock-based compensation	2,674	2,646
Gain on loan extinguishment	(5,185)	—
Gain on sale of equity investment	(59)	—
Change in certain assets and liabilities:		
Accounts receivable, net	(2,125)	(1,280)
Prepaid expenses, other current assets, and other assets	647	73
Accounts payable	(1,050)	675
Accrued expenses and other current liabilities	(3,876)	(510)
Deferred revenue and deposits	623	(633)
Net cash used in operating activities	(6,342)	(2,292)
Cash flows from investing activities:		
Purchases of property and equipment	(1,351)	(2,865)
Proceeds from sale of equity investment	400	—
Net cash used in investing activities	(951)	(2,865)
Cash flows from financing activities:		
Settlement of a contractual obligation	—	(1,495)
Proceeds from exercises of stock options, issuance and vesting of restricted stock and employee stock purchase plan, net	528	40
Net cash provided by (used in) financing activities	528	(1,455)
Net decrease in cash and cash equivalents	(6,765)	(6,612)
Cash and cash equivalents at beginning of period	33,851	27,086
Cash and cash equivalents at end of period	\$ 27,086	\$ 20,474
Supplemental disclosure of cash flow information:		
Foreign government paycheck assistance and rent subsidies (operating activities)	\$ 444	\$ 10
Settlement of a contract matter (operating activities)	\$ 2,500	\$ -
Cash paid for operating leases (operating activities)	\$ 2,155	\$ 1,648
CARES Act loan extinguishment (financing activities)	\$ 5,119	\$ -
Settlement of a contractual obligation, non cash (financing activities)	\$ -	\$ 335
Cash received (paid) during the period for income taxes, net of refunds	\$ (174)	\$ (55)

See accompanying Notes to Consolidated Financial Statements.

MARCHEX, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1: Description of Business and Summary of Significant Accounting Policies and Practices

(a) Description of Business and Basis of Presentation

Marchex, Inc. (the "Company") was incorporated in the state of Delaware on January 17, 2003. The Company is a conversational analytics and solutions company that helps businesses connect, drive, measure, and convert callers into customers, and connects the voice of the customer to their business. We deliver data insights and incorporate AI-powered functionality that drives insights and solutions to help companies find, engage and support their customers across voice and text-based communication channels.

Divestiture

In October 2020, the Company sold its interests in certain assets related to its Local Leads Platform, Call Marketplace and other assets not related to core conversational analytics and sales engagement solutions. In connection with the divestiture, the Company entered into an administrative support services agreement with the related party purchaser pursuant to which the Company will provide services to the related party purchaser for a support service fee. See Note 10: Divestiture Support Services Agreement of the Notes to the Consolidated Financial Statements for further discussion.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of our 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, including the effects of COVID-19. The Company has used estimates related to several financial statement amounts, including revenues, allowance for doubtful accounts, allowance for advertiser credits, useful lives for property and equipment and intangible assets, valuation of intangible assets, the fair value of stock options awards, the impairment of goodwill, and the valuation allowance for deferred tax assets. Actual results could differ from those estimates.

Our Company consolidates all entities that we control by ownership of a majority voting interest. All inter-company transactions and balances have been eliminated in consolidation. Certain reclassifications have been made to the Consolidated Financial Statements in the prior periods to conform to the current period presentation.

Additionally, there are situations in which U.S. GAAP requires consolidation even though the usual condition of consolidation (ownership of a majority voting interest) does not apply. Generally, this occurs when an entity holds an interest in another business enterprise that was achieved through arrangements that do not involve voting interests, which results in a disproportionate relationship between such entity's voting interests in, and its exposure to the economic risks and potential rewards of, the other business enterprise. This disproportionate relationship results in what is known as a variable interest, and the entity in which we have the variable interest is referred to as a "VIE." An enterprise must consolidate a VIE if it is determined to be the primary beneficiary of the VIE. The primary beneficiary has both (1) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

We held a remaining interest in the related party purchaser of our divested operations until we disposed of our interest in the third quarter of 2021. We determined during the period of holding an interest we were not the primary beneficiary. Our variable interests in this VIE primarily relate to the issuance of a 10% equity interest in the related party purchaser; contingent consideration related to the transaction; and an administrative support services arrangement. Refer to Note 10: Divestiture Support Services Agreement. Although this financial arrangement resulted in our holding variable interests in this related party entity, it did not empower us to direct the strategic and operational activities of the VIE that most significantly impact the VIE's economic performance. Our Company's investment related to this VIE totaled \$341,000 as of December 31, 2020, representing our maximum exposure to

loss. In the third quarter of 2021, we sold our equity interest for proceeds of \$400,000. The Company's investment related to this VIE was not individually significant to the Company's Consolidated Financial Statements.

(b) Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. Cash equivalents consist primarily of money market funds.

(c) Fair Value of Financial Instruments

The Company had the following financial instruments as of December 31, 2021 and 2022: cash and cash equivalents, accounts receivable, and 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)	Years Ended December 31,	
	2021	2022
Level 1 Assets:		
Cash	\$ 10,725	\$ 9,020
Money market funds	16,361	11,454
Total cash and cash equivalents	\$ 27,086	\$ 20,474

In addition, the Company has acquisition-related liabilities which are recorded at fair value. The fair value was estimated by applying the income approach, which is based on significant inputs that are not observable in the market (Level 3 inputs), such as the discount rate and the probability of meeting targeted financial goals.

Assets, liabilities, and operations of foreign subsidiaries are recorded based on the functional currency of the entity. For a majority of our foreign operations, the functional currency is the U.S. dollar. Assets and liabilities denominated in other than the functional currency is remeasured each month with the remeasurement gain or loss recorded in interest income and other, net in the Consolidated Statements of Operations.

(d) Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. Accounts receivable balances are presented net of allowance for doubtful accounts and allowance for advertiser credits.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in existing accounts receivable. The Company determines the allowance based on analysis of historical bad debts, advertiser concentrations, advertiser creditworthiness and current economic trends. Past due balances over 90 days and specific other balances are reviewed individually for collectability. The Company reviews the allowance for collectability quarterly. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

The allowance for doubtful accounts activity for the periods indicated is as follows:

(In Thousands)	Balance at beginning of period	Charged to costs and expenses	Write-offs, net of recoveries	Balance at end of period
December 31, 2021	444	187	365	266
December 31, 2022	266	26	125	167

Allowance for Advertiser Credits

The allowance for advertiser credits is the Company's best estimate of the amount of expected future reductions in advertisers' payment obligations related to delivered services. The Company determines the allowance for advertiser credits and adjustments based on analysis of historical credits.

The allowance for advertiser credits activity for the periods indicated is as follows:

(In Thousands)	Balance at beginning of period	Additions charged against revenue	Credits processed and other	Balance at end of period
December 31, 2021	662	248	753	157
December 31, 2022	157	461	534	84

(e) Property and Equipment

Property and equipment are stated at cost. Depreciation on computers and other related equipment, purchased and internally developed software, and furniture and fixtures are calculated on the straight-line method over the estimated useful lives of the assets, generally averaging three years. Leasehold improvements are amortized straight-line over the shorter of the lease term or estimated useful lives of the assets generally ranging from five to eight years.

We capitalize certain software development costs incurred in connection with developing or obtaining computer software for internal use when both the preliminary project stage is completed, and it is probable that the software will be used as intended. Capitalized software costs include (i) external direct costs of materials and services utilized in developing computer software, (ii) compensation and related benefits for employees who are directly associated with the software projects. Capitalized software costs are amortized on a straight-line basis when placed into service over the estimated useful life of the software, generally averaging three years. We capitalized software development costs of \$1.0 million and \$1.4 million for the year ended December 31, 2021 and 2022, respectively.

(f) Goodwill

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

Goodwill acquired in a purchase business combination is not amortized, but instead tested for impairment at least annually, and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. As of the year ended December 31, 2021 and 2022, the Company had \$17.6 million, respectively, of goodwill on its balance sheet, net of recognized impairment.

(g) Impairment or Disposal of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds fair value. Assets to be disposed of would be separately presented on the balance sheet and reported at the lower of their carrying amount or fair value less costs to sell, and no longer depreciated.

(h) Revenue Recognition

We generate the majority of our revenues from core analytics and solutions services. 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 call analytics technology platform provides data and insights that can measure the performance of mobile, online and offline advertising for customers and small business resellers. The Company generates revenue from the Company's call analytics technology platform when advertisers 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 advertiser credits, which is included in accrued expense and other current liabilities in the balance sheet, using its best estimate of the amount of expected future reductions in advertisers' payment obligations related to delivered services based on analysis of historical credits. The balance associated with the allowance for advertiser credits in the Company's Consolidated Balance Sheet was \$157,000 and \$84,000 as of December 31, 2021 and 2022, respectively. Customer payments received in advance of revenue recognition are also contract liabilities and are recorded as deferred revenue. The deferred revenue balance in the Company's Consolidated Balance Sheet as of December 31, 2021 and 2022, was \$2.0 million and \$1.4 million, respectively. During the year ended December 31, 2021 and 2022, revenue recognized that was included in the contract liabilities balances at the beginning of the period was \$1.4 million and \$1.1 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 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 balance sheet. 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, 2021 and 2022, the Company had \$128,000 and \$167,000 of net deferred contract costs, respectively, and the accumulated amortization associated with these costs was \$1.2 million and \$1.5 million for the year ended December 31, 2021 and 2022, respectively.

(i) 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; bandwidth and software license fees; network operations; and payroll and related expenses of personnel, including stock based compensation.

(j) Advertising Expenses

Advertising costs are expensed as incurred and include mobile and online advertising and related outside marketing activities, including sponsorships and trade shows. Such costs are included in sales and marketing. Advertising costs were approximately \$1.4 million and \$928,000 for the years ended December 31, 2021 and 2022 respectively.

(k) Product Development

Product development costs consist primarily of expenses incurred by the Company in the research and development, creation, and enhancement of the Company's products and services. Research and development costs are expensed as incurred and include compensation and related expenses, costs of computer hardware and software, and costs incurred in developing features and functionality of the services. For the periods presented, substantially all of the product development expenses are research and development. Product development costs are expensed as incurred or capitalized into property and equipment in accordance with FASB ASC Topic 350, *Intangibles – Goodwill and Other*. FASB ASC Topic 350 requires that cost incurred in the preliminary project and post-implementation stages of an internal use software project be expensed as incurred and that certain costs incurred in the application development stage of a project be capitalized.

(l) Income Taxes

The Company utilizes 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.

(m) Stock-Based Compensation

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 award using the straight-line method. The Company accounts for forfeitures as they occur.

(n) 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 had no customers that represented more than 10% of consolidated revenue for the year ended December 31, 2021 and 2022.

The Company has one customer that represents more than 10% of consolidated accounts receivable. The outstanding receivable balance for this customer is as follows:

(In Percentages)	At December 31,	
	2021	2022
Customer A	11%	28%

(o) Net Income (Loss) Per Share

The Company computes net income (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 income (loss) per share is computed by dividing net income (loss) applicable to common stockholders by the weighted average number of common shares outstanding during the year. Diluted net income (loss) per share is computed by dividing net income (loss) applicable to common stockholders by the weighted average number of common and dilutive common equivalent shares outstanding during the period. The computation of the diluted net income (loss) per share of Class B common stock assumes the conversion of Class A common stock to Class B common stock, while the diluted net income (loss) per share of Class A common stock does not assume the conversion of those shares.

In accordance with 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. See *Note 6: Stockholders' Equity* of the Notes to Consolidated Financial Statements for further discussion.

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 for the periods ended:

(In Thousands, Except Per Share Amounts)	Years Ended December 31,			
	2021		2022	
	Class A	Class B	Class A	Class B
Basic net loss per share:				
Numerator:				
Net loss applicable to common stockholders	\$ (466)	\$ (3,924)	\$ (889)	\$ (7,356)
Denominator:				
Weighted average number of shares outstanding used to calculate basic net loss per share	4,661	39,256	4,661	38,560
Basic net loss per share applicable to common stockholders	<u>\$ (0.10)</u>	<u>\$ (0.10)</u>	<u>\$ (0.19)</u>	<u>\$ (0.19)</u>

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

(In Thousands, Except Per Share Amounts)	Years Ended December 31,			
	2021		2022	
	Class A	Class B	Class A	Class B
Diluted net loss per share:				
Numerator:				
Net loss applicable to common stockholders	\$ (466)	\$ (3,924)	\$ (889)	\$ (7,356)
Reallocation of net loss for Class A shares as a result of conversion of Class A to Class B shares	—	(466)	—	(889)
Diluted net loss applicable to common stockholders:	\$ (466)	\$ (4,390)	\$ (889)	\$ (8,245)
Denominator:				
Weighted average number of shares outstanding used to calculate basic net loss per share	4,661	39,256	4,661	38,560
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	43,917	4,661	43,221
Diluted net loss per share applicable to common stockholders	\$ (0.10)	\$ (0.10)	\$ (0.19)	\$ (0.19)

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

- For the years ended December 31, 2021 and 2022, outstanding options to acquire 3,601 and 3,766 shares, respectively, of Class B common stock.
- For the years ended December 31, 2021 and 2022, 965 and 1,105 shares of unvested Class B restricted common shares, respectively.
- For the years ended December 31, 2021 and 2022, 553 and 535 restricted stock units, respectively.

(p) Guarantees

FASB ASC Topic 460, *Guarantees* provides accounting guidance surrounding liability recognition and disclosure requirements related to guarantees. In the ordinary course of business, the Company is not subject to potential obligations under guarantees that fall within the scope of FASB ASC Topic 460 except for standard indemnification provisions that are contained within many of the Company's agreements, and give rise only to the disclosure requirements prescribed by FASB ASC Topic 460.

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 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.

(q) Recent Accounting Pronouncement Not Yet Effective

To date, there have been no recent accounting pronouncements not yet effective that are expected to have a material impact on our Consolidated Financial Statements.

Note 2: Property and Equipment

Property and equipment consisted of the following:

(In Thousands)	Years Ended December 31,	
	2021	2022 ⁽¹⁾
Computer and other related equipment	\$ 13,373	\$ 14,939
Purchased and internally developed software	2,483	3,090
Furniture and fixtures	1,271	1,273
Leasehold improvements	1,732	1,732
Construction in progress	769	1,400
	\$ 19,628	\$ 22,434
Less: accumulated depreciation and amortization	(16,811)	(18,384)
Property and equipment, net	\$ 2,817	\$ 4,050

(1) Includes the original cost of fully depreciated fixed assets which was \$13.6 million at December 31, 2022.

Depreciation and amortization expense related to property and equipment was approximately \$1.2 million and \$1.6 million for the years ended December 31, 2021 and 2022, respectively.

In the first quarter of 2023, we entered into a financing lease agreement for up to \$1.0 million for the procurement of server equipment and with current borrowing of \$451,000.

Note 3: Leases

The Company adopted FASB ASC Topic 842, *Leases* (ASC 842) on January 1, 2019 and used the effective date of January 1, 2019 as its date of initial application. The primary impact upon adoption of the standard relates to the recognition of new right-of-use (“ROU”) assets and lease liabilities on the Company’s balance sheet for its office and operating leases and providing significant new disclosures about its leasing activities. On adoption, the Company recognized additional operating lease liabilities of approximately \$8.7 million based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases and ROU assets of approximately \$7.4 million.

The standard also provides practical expedients for an entity’s ongoing accounting. The Company elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, the Company did not recognize ROU assets or lease liabilities, and this included not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. The Company also elected the practical expedient to not separate lease and non-lease components for all of its leases.

The Company has an operating lease for office space for its corporate headquarters in Seattle, Washington. It also has operating leases for office space in Mississauga, Canada and Wichita, Kansas. The Company recognizes our 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.

The Company's lease agreement with respect to office space in Seattle, Washington, as amended, expires on March 31, 2025. The Company has the option to terminate the lease in March 2023, subject to satisfaction of certain conditions, including a payment of a termination fee of approximately \$671,000. In addition, as part of the agreement, the lessor paid towards the cost of certain leasehold improvements ("landlord contribution") of which the Company could use approximately \$180,000 of unused landlord contribution as a credit against any payment obligation under the lease. In the second quarter of 2019, the Company requested the \$180,000 landlord contribution from the lessor as a reimbursement towards certain leasehold improvements and received those funds in the third quarter of 2019. In the first quarter of 2018, the lessor paid \$373,000 towards certain leasehold improvements which the Company accounted for as a lease incentive and is amortizing as a reduction of rent expense over the lease term. Additionally, in April 2018, the lessor refunded the previously provided security deposit and the Company provided a letter of credit to the lessor in the amount of \$575,000, which will be reduced by \$100,000 annually starting in April 2019. The letter of credit was collateralized by a \$575,000 certificate of deposit, which was restricted in use and is included in other assets in the Company's Condensed Consolidated Balance Sheet as of March 31, 2019. On April 2, 2019, the Company was no longer required to collateralize the letter of credit and the certificate of deposit matured. Additionally, in the third quarter of 2020, the Company concluded that exercising its option to terminate this office lease in March 2023 had met the reasonably certain threshold and as such, the Company remeasured its ROU asset and liability associated with this lease as of September 30, 2020 based on the expected termination fee payment of approximately \$671,000 and a lease termination date of March 2023. In September 2022, we provided notice to the landlord exercising our option to terminate the lease. We are required to make payment of approximately \$671,000 on or before the termination date. In December 2022, we procured alternative office space in the Seattle, Washington area, which our commencement date is April 1, 2023. The remaining lease obligation is classified within lease liability, current on our Consolidated Balance Sheet.

The Company's lease agreement with respect to office space in Mississauga, Canada commenced in November 2016, with a lease term of 60 months, and expired on November 30, 2021. The Company has subsequently entered into a month-to-month lease and for disclosure purposes, we have selected the short-term lease election. We exercised our intent to exit the lease in February 2023. We do not plan to secure new office space in Canada.

The Company commenced a new lease for an office space in Wichita, Kansas in June 2020 which continues for a period of 66 months with an option to extend the term for two additional periods of three years each. The Company has the option to terminate the lease pursuant to certain terms as specified in the lease without any termination fees if notice is provided.

Lease cost recognized in the Company's Consolidated Statements of Operations and other information is summarized as follows:

(In Thousands)	Years Ended December 31,	
	2021	2022
Operating lease cost	\$ 1,862	\$ 1,943
Short-term operating lease cost	8	202
Total operating lease cost	1,870	2,145
Other information:		
Weighted-average remaining lease term - operating leases	1.9 years	1.2 years
Weighted-average discount rate - operating leases (1)	4.8%	4.6%

- (1) The discount rate used to compute the present value of the total lease liabilities as of December 31, 2021 and 2022 was based on the Company's estimated incremental borrowing rate of similar secured borrowings available to the Company as of the commencement date of lease.

As of December 31, 2022 the Company's operating lease liabilities were as follows:

(In Thousands)	Total	
Gross future operating lease payments	\$	1,696
Less: imputed interest		(59)
Present value of total operating lease liabilities		1,637
Less: current portion of operating lease liabilities		(1,252)
Total long-term operating lease liabilities	\$	385

Note 4: Commitments and Contingencies

(a) Commitments

The Company has commitments for future payments related to office facilities leases and other contractual obligations. The Company leases its office facilities under operating lease agreements in accordance with ASC 842 and recognizes rent expense on a straight-line basis over the lease term with any lease incentive amortized as a reduction of rent expense over the lease term. Other contractual obligations primarily relate to minimum contractual payments due to outside service providers.

Future minimum payments are approximately as follows:

(In Thousands)	Facilities operating leases	Other contractual obligations	Total
2023	1,540	2,502	4,042
2024	562	196	758
2025	566	—	566
2026	400	—	400
2027 and thereafter	380	—	380
Total minimum payments	\$ 3,448	\$ 2,698	\$ 6,146

(1) For additional information regarding the Company's facilities operating leases, see Note 3. Leases of the Notes to Consolidated Financial Statements for further discussion.

(b) 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 some agreements to which the Company is a party to, 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. To date, there have been no known events or circumstances that have resulted in any material costs related to these indemnification provisions. 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. 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 million and \$1 million that was placed in escrow to secure indemnification obligations. On March 1, 2023, the Company filed a motion to compel arbitration and/or dismiss this litigation. On March 22, 2023, the plaintiffs filed an amended complaint also seeking substantial punitive damages. 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.

Note 5: Income Taxes

The components of loss before provision for income taxes consist of the following (in thousands):

(In Thousands)	Years Ended December 31,	
	2021	2022
United States	\$ (1,173)	\$ (7,525)
Foreign	(2,985)	(536)
Loss before provision for income taxes	<u>\$ (4,158)</u>	<u>\$ (8,061)</u>

The provision for income taxes consists of the following (in thousands):

(In Thousands)	Years Ended December 31,	
	2021	2022
Current federal provision		
State	\$ 204	\$ 58
Foreign	-	39
Deferred provision (benefit)		
Federal	20	67
State	106	20
Foreign	(98)	—
Total income tax expense (benefit)	<u>\$ 232</u>	<u>\$ 184</u>

The Company's income tax expense (benefit) differed from the amounts computed by applying the U.S. federal statutory rate to loss before provision for income taxes as a result of the following:

(In Thousands)	Years Ended December 31,		
	2021	2021	2022
	As Reported	As Adjusted	
Income tax benefit at U.S. statutory rate	\$ (873)	\$ (873)	\$ (1,693)
State taxes, net of valuation allowance	(448)	313	79
Foreign tax differential	(747)	(747)	(150)
Non-deductible transaction costs	(1)	2,496	16
Stock-based compensation (1)	434	1,985	190
Gain on CARES Act loan	(1,089)	(1,089)	32
Valuation allowance	3,334	(1,474)	1,815
Goodwill impairment	98	98	—
Tax credits	(544)	(544)	(237)
Other expenses	68	67	132
Total income tax expense (benefit)	<u>\$ 232</u>	<u>\$ 232</u>	<u>\$ 184</u>

(1) Includes non-deductible stock-based compensation and excess tax benefits and shortfalls from stock-based compensation.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below and reflects the 21% U.S. federal statutory rate for 2021 and 2022 (in thousands):

(In Thousands)	Years Ended December 31,		
	2021	2021	2022
	As Reported	As Adjusted	
Deferred tax assets:			
Accrued liabilities not currently deductible	\$ 476	\$ 476	\$ 434
Intangible assets- excess of financial statement over tax amortization	5,985	3,245	3,341
Stock-based compensation	2,405	442	675
Federal net operating and capital losses	35,052	35,052	35,724
State, local and foreign net operating and capital loss carryforwards	3,353	4,552	5,326
Research & experimental tax and other credit carryforwards	5,184	5,685	5,421
Lease liability	866	866	426
Capitalized research and development	—	—	1,054
Other	547	547	460
Gross deferred tax assets	53,868	50,865	52,861
Valuation allowance	(53,066)	(49,643)	(51,795)
Net deferred tax assets	\$ 802	\$ 1,222	\$ 1,066
Deferred tax liabilities:			
Intangible assets-excess of tax over financial statement amortization	(393)	(813)	(1,107)
Right-of-use lease asset	(595)	(595)	(192)
Net deferred tax liabilities	\$ (186)	\$ (186)	\$ (233)

In preparing our December 31, 2022 financial statements, we determined that our December 31, 2021 gross deferred tax balances related to intangible assets, stock-based compensation, state net operating losses, goodwill, and the corresponding valuation allowance were misstated by approximately \$3.0 million. The net amount and impact are zero. We evaluated the materiality of the adjustment and concluded that its impact was not material on our financial statements taken as a whole and did not affect our balance sheet, statement of operations, stockholders' equity or cash flows, for any periods presented. We have elected to present an "as reported" and "as adjusted" for the year ended December 31, 2021 in the tables above.

As of December 31, 2022, the Company's federal and state NOL carryforwards were approximately \$170.1 million and \$58.8 million, respectively. Of the total federal net operating losses reported, we have accumulated \$47 million with an indefinite life as of December 31, 2022. The remaining federal net operating losses and the state net operating losses will begin to expire in 2027 and 2028, respectively, for income tax purposes. As of December 31, 2022, the Company's federal research and development credit carryforwards were \$6.3 million, which will start expiring in 2029.

The Tax Reform Act of 1986 limits the use of NOL and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. The Company is not aware that any such change has occurred related to these specific tax attributes, or that the utilization of the carryforwards is limited such that these NOL or tax credit carryforwards will likely never be utilized. Accordingly, the Company has included these federal NOL and tax credit carryforwards in its deferred tax assets (subject to valuation allowance).

The Company has recorded a deferred tax asset for stock-based compensation recorded on unexercised non-qualified stock options and certain restricted shares and restricted share units. The ultimate realization of this asset is dependent upon the fair value of the Company's stock when the options are exercised and when restricted shares or restricted share units vest, and generation of sufficient taxable income to realize the benefit of the related tax deduction.

The Tax Cuts and Jobs Act contained a provision which requires the capitalization of Section 174 costs incurred in years beginning on or after January 1, 2022. Section 174 costs are expenditures which represent research and development costs that are incident to the development or improvement of a product, process, formula,

invention, computer software, or technique. This provision changes the treatment of Section 174 costs such that the expenditures are no longer allowed as an immediate deduction but rather must be capitalized and amortized. We have included the impact of this provision, which results in a deferred tax asset of approximately \$1.1 million as of December 31, 2022.

At December 31, 2021 and 2022, the Company recorded a valuation allowance of \$49.6 million, and \$51.8 million, respectively, against its federal, state, city and foreign net deferred tax assets, as it believes it is more likely than not that these benefits will not be realized. The net change in the total valuation allowance for each of the years ended December 31, 2021 and 2022 was \$9.8 million and \$2.2 million, respectively.

The Company regularly reviews deferred tax assets to assess whether it is more likely than not that the 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 Company incurred taxable losses from 2016 through 2022. 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.

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 following table summarizes activity related to tax contingencies from January 1, 2021 to December 31, 2022 which are recorded as an offset to deferred tax assets (in thousands):

(In Thousands)	
Gross tax contingencies—January 1, 2021	\$ 1,365
Gross increases to current period tax positions	72
Gross decreases to tax positions associated with prior periods	(55)
Gross tax contingencies—December 31, 2021	<u>1,382</u>
Gross increases to current period tax positions	<u>2</u>
Gross tax contingencies—December 31, 2022	<u>\$ 1,384</u>

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 under examination or may be subject to examination.

Note 6: Stockholders' Equity

(a) Common Stock and Authorized Capital

The authorized capital stock of the Company consists of 1,000,000 shares of undesignated preferred stock and 125,000,000 shares of Class B common stock. The Company's board of directors has the authority to issue up to 1,000,000 shares of preferred stock, \$0.01 par value in one or more series and has the authority to designate rights, privileges and restrictions of each such series, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series.

The Company has two classes of authorized common stock: Class A common stock and Class B common stock. Except with respect to voting rights, the Class A and Class B shares have identical rights. Each share of Class A common stock is entitled to twenty-five votes per share, and each share of Class B common stock is entitled to one vote per share. Each share of Class A common stock is convertible at the holder's option into one share of Class B common stock.

In accordance with the stockholders' agreement signed by the founding Class A common stockholders, the following provisions survived the Company's initial public offering: Class A stockholders other than Russell C. Horowitz may only sell, assign or transfer their Class A stock to existing Class A stockholders or to the Company and in the event of transfers of Class A stock not expressly permitted by the stockholders' agreement, such shares of Class A stock shall be converted into shares of Class B 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 has made no repurchases under the 2014 Repurchase Program for the years ended December 31, 2021 and 2022. During the year ended December 31, 2020, a joint and equal tender from the Company and Edenbrook Capital LLC (an existing shareholder of the Company) (the "Offer") was completed for 10 million shares of the Company's Class B common stock at \$2.15 per share, of which the Company's share of the repurchase totaled approximately \$10.8 million for 5 million shares, which was not pursuant to the 2014 Repurchase Program. Shares repurchased but not yet retired by the Company are classified as treasury stock on the Consolidated Balance Sheet before retirement. Retirement of treasury stock results in reductions to common stock and additional paid-in capital.

In November 2018, the Company acquired 100% of the outstanding stock of Callcap for consideration of approximately \$25 million in cash at closing and approximately 3.4 million shares of Class B common stock to be issued over the four year period following the acquisition date. The issuance of the shares for 2021 and 2022 have been deferred and will issue in 2023 as a result of conditional events occurring as specified in terms of the acquisition. In 2022, we paid \$1.5 million in cash and agreed to transfer \$335,000 in cash and/or equipment before November 2023 in exchange for settling our contractual obligation to issue 1.34 million of such shares. The cash consideration was recognized as a financing activity on our Consolidated Statements of Cash Flow.

In December 2019, the Company acquired 100% of the outstanding stock of Sonar for consideration of approximately \$8.5 million in cash at closing and approximately 1.0 million shares of Class B common stock to be issued over the three-year period following the acquisition date, which have been issued in their entirety. The Company also agreed to issue up to approximately 389,000 shares of Class B common stock based upon the achievement of certain financial target goals by Sonar in 2020 which were not achieved. In 2023, the Company authorized a minority interest stock incentive plan, Sonar Technology Stock Incentive Plan, for the Sonar subsidiary which allows for grants of stock options, restricted stock units and restricted stock awards by Sonar to eligible participants at the discretion of the Plan's Administrative Committee. The Plan authorizes up to 30% of Sonar's current authorized shares may be issued with respect to awards granted under the plan.

(b) Stock Option Plan

The Company's stock incentive plan (the "2021 Plan"), which was established in 2021, allows for grants of stock options, restricted stock units and restricted stock awards to eligible participants and such options may be designated as incentive or non-qualified stock options at the discretion of the 2021 Plan's Administrative Committee. Prior to the 2021 Plan, the Company granted stock-based awards under its 2012 Stock Incentive Plan (the "2012 Plan"). No further awards were made under the 2012 Plan after December 31, 2021. The 2021 Plan authorizes up to 3,500,000 shares of Class B common stock that may be issued with respect to awards granted under the 2021 Plan, and provides that the total number of shares of Class B common stock for which options designated as incentive stock options may be granted shall not exceed 3,500,000 shares. Annual increases to each of these share limits are to be added on the first day of each fiscal year beginning on January 1, 2022 equal to 3% of the

outstanding common stock (including for this purpose any shares of common stock issuable upon conversion of any outstanding capital stock of the Company) or in the case of incentive stock options, the lesser of (i) 2,000,000 shares of Class B common stock, or (ii) 3% of the outstanding common stock (including for this purpose any shares of common stock issuable upon conversion of any outstanding capital stock of the Company), or (iii) such number as determined by the Company’s board of directors. As a result of this provision, the authorized number of shares available under the 2021 Plan was increased by 1,261,566 and 1,294,725 on January 1, 2022 and 2023, respectively, bringing the aggregate authorized number of shares available under the 2021 Plan to 6,056,291. The Company may issue new shares or reissue treasury shares for stock option exercises and restricted stock grants. Generally, stock options have 10-year terms and vest 25% each year either annually or quarterly, over a 4-year period and restricted stock awards and units vest 25% each year annually over a 4-year period.

The Company did not grant any options with exercise prices less than the then current market value during 2021 and 2022.

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 award using the straight-line method. The Company accounts for forfeitures as they occur. Stock-based compensation has been included in the same lines as compensation paid to the same employees in the Consolidated Statements of Operations.

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

(In Thousands)	Years ended December 31,	
	2021	2022
Service costs	\$ 49	\$ 171
Sales and marketing	870	796
Product development	296	293
General and administrative	1,459	1,386
Total stock-based compensation	\$ 2,674	\$ 2,646

For the years ended December 31, 2021 and 2022, the income tax benefit related to stock-based compensation included in net loss was \$0 for all periods due to the valuation allowance recorded on the deferred tax assets.

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 years ended December 31, 2021 and 2022, 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 and the expected volatility of companies in similar industries that have similar vesting and contractual terms. 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 assumptions were used in determining the fair value of time-vested stock options granted for the periods indicated:

	Years Ended December 31,	
	2021	2022
Expected life (in years)	4.00-6.25	4.00-6.25
Risk-free interest rate	0.64% - 1.35%	2.41% - 4.30%
Expected volatility	50% - 59%	51% - 63%
Weighted average expected volatility	55%	55%

Stock option, restricted stock award, and restricted stock unit activity during the period is as follows:

	Options and Restricted Stock available for grant (in thousands)	Number of options outstanding (in thousands)	Weighted average exercise price of options	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Balance at December 31, 2021	16,116	3,601	\$ 3.43	6.46	\$ 360
Increase to pool January 1, 2022	1,262	—			
Options granted	(739)	739	\$ 2.08		
Restricted stock granted	(636)	—			
Restricted stock forfeited	22	—			
Options exercised	2	(2)	\$ 1.66		
Options expired	439	(439)	\$ 3.69		
Options forfeited	133	(133)	\$ 3.14		
Balance at December 31, 2022	16,599	3,766	\$ 3.14	6.67	\$ 10
Options exercisable at December 31, 2022		2,113	\$ 3.74	5.00	\$ 3

Information related to stock compensation activity during the period indicated is as follows:

	Years Ended December 31,	
	2021	2022
Weighted average fair value of options granted	\$ 1.21	\$ 1.06
Intrinsic value of options exercised (in thousands)	\$ 71	\$ -
Total grant date fair value of restricted stock vested (in thousands)	\$ 1,786	\$ 1,321

At December 31, 2022, there was \$1.9 million of unrecognized stock option compensation expense related to non-vested awards, which is expected to be recognized over a weighted average period of 2.8 years.

During the year ended December 31, 2022, gross proceeds recognized from the exercise of stock options was \$3,000.

Restricted stock awards and restricted stock unit activity during the period is as follows:

	Shares/ Units (In Thousands)	Weighted Average Grant Date Fair Value
Unvested at December 31, 2021	1,518	\$ 2.80
Granted	636	2.06
Vested	(492)	2.68
Forfeited	(22)	3.66
Unvested at December 31, 2022	1,640	2.53

Restricted stock awards and restricted stock units are generally measured at fair value on the date of grant based on the number of awards granted and the quoted price of the Company's common stock. Restricted stock awards and restricted stock units are expensed on a straight-line basis over the vesting or service period, as applicable, and forfeitures are recognized as they occur. Restricted stock units entitle the holder to receive one share of the Company's Class B common stock upon satisfaction of certain service conditions.

At December 31, 2022, there was \$2.2 million of unrecognized restricted stock compensation expense related to non-vested restricted stock, which is expected to be recognized over a weighted average period of 2.7 years.

(c) Employee Stock Purchase Plan

On March 8, 2013, the Company's board of directors adopted and in May 2013 the stockholders approved the 2014 Employee Stock Purchase Plan ("2014 ESPP"), which became effective on January 1, 2014. The Company authorized an aggregate of 225,000 shares of Class B common stock for issuance under the plan to participating employees. The 2014 ESPP provides eligible employees the opportunity to purchase the Company's Class B common stock at a price equal to 95% of the closing price on the last business day of each purchase period. The 2014 ESPP permits eligible employees to purchase amounts up to 15% of their compensation in the purchase period, and no employee is permitted to purchase stock worth more than \$25,000 in any calendar year, valued as of the first day of each purchase period. During the year ended December 31, 2021, 29,854 shares were purchased at prices ranging from \$2.44 to \$2.91 per share. During the year ended December 31, 2022, 18,721 shares were purchased at prices ranging from \$1.25 to \$2.18 per share.

Note 7: 401(k) Savings Plan

The Company maintains voluntary defined contribution plans, which are qualified, covering employees that meet eligibility requirements. Eligible employees may elect to defer and contribute a portion of their eligible compensation to the plans, not to exceed the dollar amounts set by applicable laws. During 2011, the Company elected to match a portion of the employee contributions up to a defined maximum. In 2021 and 2022, cash contributions were made in the amount of \$220,000 and \$205,000 respectively.

Note 8: 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 years ended December 31, 2021 and 2022, the Company operated in a single segment comprised of its core analytics and solutions services.

Long-lived assets by geographical region are based on the location of the legal entity that owns the assets. As of December 31, 2021 and 2022, 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:

(In Percentages)	Years ended December 31,	
	2021	2022
United States	99%	99%
Canada and other countries	1%	1%
	100%	100%

Note 9: Identified Intangible Assets

Identifiable intangible assets from acquisitions consisted of the following:

(In Thousands)	As of December 31, 2021			
	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount
Customer relationships	\$ 13,018	\$ (6,679)	\$ (3,430)	\$ 2,909
Technologies	9,369	(6,905)	(1,062)	1,402
Non-compete agreements	3,409	(2,660)	(346)	403
Tradenames	734	(613)	(121)	0
Total identifiable intangible assets from acquisitions	\$ 26,530	\$ (16,857)	\$ (4,959)	\$ 4,714

	As of December 31, 2022			
(In Thousands)	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount
Customer relationships	\$ 13,018	\$ (8,202)	\$ (3,430)	\$ 1,386
Technologies	9,369	(7,372)	(1,062)	935
Non-compete agreements	3,409	(2,794)	(346)	269
Tradenames	734	(613)	(121)	0
Total identifiable intangible assets from acquisitions	\$ 26,530	\$ (18,981)	\$ (4,959)	\$ 2,590

Amortizable intangible assets are amortized on a straight-line basis over their useful lives. Customer relationships, acquired technologies, tradenames, and non-compete agreements have a weighted average useful life from date of purchase of 5 years, 3-5 years, 2 years, 1 - 3 years, respectively. Aggregate amortization expense incurred by the Company for the year ended December 31, 2021 and 2022 was approximately \$4.5 million and \$2.1 million, respectively. Based upon the current amount of acquired identifiable intangible assets subject to amortization, the estimated amortization expense is as follows: \$2.0 million in 2023 and \$602,000 in 2024.

Note 10: Divestiture Support Services Agreement

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 is a related party controlled by a shareholder and officers of the Company.

The Company received cash consideration at closing of approximately \$2.3 million. No gain or loss on the sale of discontinued operations was recognized in the Consolidated Statement of Operations as it was sold to a related party. The net consideration received from the sale was recognized in the Company's Consolidated Statements of Stockholder's Equity. The sale also included (i) contingent consideration based on the achievement of certain revenue and thresholds from the Call Marketplace, Local Leads Platform and the purchaser's total business; (ii) certain contingent sales transaction consideration; (iii) shares of Class B common stock in the purchaser equal to the issuance of a 10% equity interest; and (iv) the cancellation of Company stock options for 1.5 million shares currently held by two officers of the Company who were involved in the transaction.

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 will provide services to the related party purchaser for a support services fee, with certain guaranteed payments to the Company in the first year and in the second year following closing. Support services fees related to this arrangement totaled \$6.4 million for the year ended December 31, 2022 and \$6.6 million for the year ended December 31, 2021 and are included in the Company's 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, 2022 and 2021, the net amount due from the purchaser of \$663,000 and \$630,000, respectively, is included in the Company's Consolidated Balance Sheet within *Prepaid expenses and other current assets*.

Note 11: CARES Act Loans and Foreign Wage Subsidy

During the second quarter of 2020, the Company secured \$5.3 million in promissory notes to bank lenders pursuant to government loan programs (collectively, the “Loans”). At December 31, 2020, the remaining balance was \$5.1 million. The difference relates to the business operations divested in October 2020. The Loans were made under, and are subject to the terms and conditions of, the CARES Act and are administered by the U.S. Small Business Administration (“SBA”). The terms of the Loans were two years with maturity dates in the second quarter of 2022 and they contained a fixed annual interest rate of 1%. In the third quarter of 2021, we were legally released from our obligation as our application was approved by the SBA. We recognized a gain on extinguishment of \$5.2 million in the 2021 Consolidated Statement of Operations. It is possible that the SBA could subsequently audit the forgiven Loans. The Company believes it was eligible to receive the Loans, calculated the loan amounts correctly, spent loan proceeds on allowable uses and is entitled to loan forgiveness. The Company will retain its financial documents relating to the Loans for six years as required.

In addition, under a foreign wage subsidy program in response to the COVID-19 pandemic, a subsidiary received approximately \$444,000 and \$10,000 in funding during the year ended December 31, 2021 and 2022, respectively, that were treated as reductions of payroll expenses.

Note 12: Interest and Other

Interest income and other consists of the following (in thousands):

	Years Ended December 31,	
	2021	2022
Interest Income & Foreign Currency	\$ 3	\$ 99
Interest Expense	(37)	-
Other	2,487	(11)
Total	<u>\$ 2,453</u>	<u>\$ 88</u>

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. 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 has concluded that, as of the date of the evaluation, our disclosure controls and procedures were effective.

Management’s Report on Internal Control Over Financial Reporting***(a) Management’s report on internal control over financial reporting***

Management of Marchex, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934 Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2022 as required by the Securities Exchange Act of 1934 Rule 13a-15(c). In making this assessment, we used the criteria set forth in the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2022.

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.

ITEM 9B. OTHER INFORMATION.

None.

PART III**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

The information required by this item is incorporated herein by reference to the Company's definitive proxy statement relating to the 2023 annual meeting of stockholders (the "2023 Proxy Statement"), or an amendment to this 10-K, to be filed with the Securities and Exchange Commission ("SEC") within 120 days of the Company's fiscal year ended December 31, 2022.

Our Code of Ethics for our Chief Executive Officer, Chief Financial Officer and Senior Financial Officers is available on our web site, www.marchex.com, by clicking "Investors" and then "Corporate Governance".

ITEM 11. EXECUTIVE COMPENSATION.

The information required under this item may be found in the 2023 Proxy Statement and is incorporated herein by reference, or an amendment to this 10-K, to be filed with the SEC within 120 days of the Company's fiscal year ended December 31, 2022.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required under this item may be found in the 2023 Proxy Statement and is incorporated herein by reference, or an amendment to this 10-K, to be filed with the SEC within 120 days of the Company's fiscal year ended December 31, 2022.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required under this item may be found in the 2023 Proxy Statement and is incorporated herein by reference, or an amendment to this 10-K, to be filed with the SEC within 120 days of the Company's fiscal year ended December 31, 2022.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The Company's independent registered public accounting firm is RSM US LLP, Seattle, WA, PCAOB ID: 49.

The information required under this item may be found in the 2023 Proxy Statement and is incorporated herein by reference, or an amendment to this 10-K, to be filed with the SEC within 120 days of the Company's fiscal year ended December 31, 2022.

PART IV**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

1. The following reports and financial statements are included in Part II, Item 8 of this Form 10-K:
 - Reports of Independent Registered Public Accounting Firm;
 - Consolidated Balance Sheets as of December 31, 2021 and 2022;
 - Consolidated Statements of Operations for the years ended December 31, 2021 and 2022;
 - Consolidated Statements of Stockholders' Equity for the years ended December 31, 2021 and 2022;
 - Consolidated Statements of Cash Flow for the years ended December 31, 2021 and 2022; and
 - Notes to Consolidated Financial Statements.

2. Financial Statement Schedules

Financial statement schedules are omitted because they are not required or are not applicable, or the required information is provided in the Consolidated Financial Statements or notes described in Item 15 (a) (1) above.

3. We have filed, or incorporated into this Form 10-K by reference, the exhibits listed on the accompanying Exhibit Index immediately following the signature page of this Form 10-K.

EXHIBIT INDEX

Exhibit Number	Description of Document
++2.1	Asset Purchase Agreement dated as of April 21, 2015, by and among NameFind LLC, GoDaddy.com, LLC, Marchex Sales, LLC and Marchex (incorporated by reference to Exhibit 2.11 to the Registrant's Current Report on Form 8-K filed with the SEC on April 27, 2015).
++2.2	Share Purchase Agreement, dated as of November 5, 2018, by and among the Registrant, Marchex CA Corporation, Telmetrics Inc., the Sellers and with respect to Articles I and IX only, the Stockholder Representatives (incorporated by reference to Exhibit 2.5 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).
++2.3	Share Purchase Agreement, dated as of November 20, 2018, by and among the Registrant, Sita Laboratories, Inc., the Sellers and the Stockholder Representative (incorporated by reference to Exhibit 2.6 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).
+2.4	Equity Purchase Agreement, dated as of December 13, 2019, by and among the Registrant, Sonar Technologies, Inc., the Sellers and Fortis Advisers LLC, as Securityholder Representative (incorporated by reference to Exhibit 2.7 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC on March 13, 2020).
2.5	Asset Purchase Agreement, dated August 7, 2020, between the Company and Archenia, Inc. (incorporated by reference to Annex A of the Proxy Statement, as filed with the SEC on August 24, 2020).
2.6	Support Services Agreement, dated October 16, 2020, between the Company and Archenia, Inc. (incorporated by reference to Annex A of the Proxy Statement, as filed with the SEC on August 24, 2020).
3.1	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.3 to the Registrant's Amendment No. 2 to the Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on March 19, 2004).
3.2	Second Amended and Restated By-Laws of the Registrant (incorporated by reference to Exhibit 3.3 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 6, 2017).
4.1	Specimen stock certificate representing shares of Class B Common Stock of the Registrant (incorporated by reference to Exhibit 4.1 to the Registrant's Amendment No. 3 to the Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on March 30, 2004).
*10.1	Amended and Restated 2003 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Amendment No. 2 to the Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on March 19, 2004).
*10.2	Form of Retention Agreement (incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on March 14, 2018).
*10.3	Form of First Amendment to Retention Agreement (incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the SEC on March 10, 2015).
*10.4	Revised Form of Retention Agreement (incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the SEC on March 10, 2015).

Exhibit Number	Description of Document
10.5	Amended and Restated Lease effective as of June 5, 2009, between 520 Pike Street, Inc. and the Registrant (incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the SEC on March 10, 2015).
*10.6	Form of Executive Officer Stock Option Agreement (2003 Amended and Restated Stock Incentive Plan) (incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the SEC on March 10, 2015).
*10.7	Form of Notice of Grant of Executive Officer Stock Option (Performance-Based) (2003 Amended and Restated Stock Incentive Plan) (incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on March 7, 2016).
*10.8	Form of Notice of Grant of Executive Officer Stock Option (Time-Based) (2003 Amended and Restated Stock Incentive Plan) (incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on March 7, 2016).
*10.9	Amendment to the Marchex, Inc. 2003 Amended and Restated Stock Incentive Plan (incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on March 7, 2016).
*10.10	Marchex, Inc. Amended and Restated Annual Incentive Plan (incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the SEC on March 8, 2017).
*10.11	Marchex, Inc. 2012 Stock Incentive Plan (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Form 14A filed with the SEC on July 10, 2017).
*10.12	Marchex, Inc. 2014 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).
*10.13	Form of Incentive Stock Option Notice and Agreement (2012 Stock Incentive Plan) (incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).
*10.14	Form of Nonstatutory Stock Option Notice and Agreement (2012 Stock Incentive Plan) (incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).
*10.15	Form of Restricted Stock Agreement (2012 Stock Incentive Plan) (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).
*10.16	Form of Restricted Stock Units Notice and Agreement (2012 Stock Incentive Plan) (incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).
*10.17	Form of Indemnity Agreement (Section 16 Executive Officers and Directors) (incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).
*10.18	Amended and Restated Executive Employment Agreement effective as of April 21, 2016, by and between Michael Arends and the Registrant (incorporated by reference to Exhibit 10.50 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 9, 2016).
10.19	Amendment No. 3 to Amended and Restated Lease dated June 27, 2017, between 520 Pike Street, Inc. and the Registrant (incorporated by reference to Exhibit 10.46 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 4, 2017).

Exhibit Number	Description of Document
*10.20	Marchex, Inc. 2021 Stock Incentive Plan (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Form 14A filed with the SEC on August 20, 2021).
*10.21	Form of Incentive Stock Option Notice and Agreement (2021 Stock Incentive Plan).
*10.22	Form of Nonstatutory Stock Option Notice and Agreement (2021 Stock Incentive Plan).
*10.23	Form of Restricted Stock Agreement (2021 Stock Incentive Plan).
*10.24	Form of Restricted Stock Units Notice and Agreement (2021 Stock Incentive Plan).
†10.25	Sublease effective as of January 5, 2023, between the Board of Regents of the University of Washington and the Registrant
†21.1	Subsidiaries of the Registrant.
†23.1	Consent of RSM US LLP
†23.2	Consent of Moss Adams LLP
24.1	Power of Attorney (incorporated herein by reference to the signature page of the Annual Report on Form 10-K)
†31.1(i)	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.
†31.1(ii)	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 Document.
†101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
†101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
†101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document.
†101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Management contract or compensatory plan or arrangement.

(+) Certain identified information has been excluded from this Agreement because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

(+)(+) Certain information in this Agreement has been omitted and filed separately with the SEC. Confidential treatment has been granted with respect to the omitted portions.

† Filed herewith.

†† Furnished herewith.



DocuSign Envelope ID: EA9B96EB-3D5B-4638-83EA-9F41841AF777
Exhibit 10.25

Jones Lang LaSalle
 601 Union St. Ste 2800
 Seattle, WA 98101
 Phone: 206-607-1700
 Fax: 206-607-1701

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Form • SUB LS Sublease Agreement
 Rev.

9/2020

SUBLEASE AGREEMENT

THIS SUBLEASE AGREEMENT ("Sublease") is entered and effective this 20 day December, 2022, by Nelson Worldwide, L.L.C., a(n) Pennsylvania limited liability company ("Tenant"), and Marchex, Inc., a(n) _____ ("Subtenant"). Tenant entered into that certain lease agreement dated 19th of January 2017 ("Master Lease") with the Board of Regents of the University of Washington, a(n) a state institution of higher education and an agency of the State of Washington as landlord ("Landlord"), for the leased premises legally described in the attached Exhibit 1 (the "Master Premises"). The Master Premises is located in that certain building commonly known as IBM Building (the "Building"), and situated on real property legally described in the Master Lease (the "Property"). A copy of the Master Lease, including all amendments and addenda thereto, is attached as Exhibit 2. Tenant and Subtenant agree as follows:

1. SUBLEASESUMMAR

- a. **Subleased Premises.** Tenant leases to Subtenant and Subtenant leases from Tenant that portion of the Master Premises (the "Subleased Premises") consisting of an agreed area of 12,299 rentable square feet on the 13th floor(s) of the Master Premises, as outlined on the floor plan attached as Exhibit 3 and commonly known as Suite 1300, with an address of 1200 5th Avenue, Seattle WA 98101.
- b. **Sublease Commencement Date.** The term of this Sublease shall commence upon (check one):
 D Substantial completion of (choose one) D Tenant's Work. or D Subtenant's Work as further described in the attached Exhibit 4 ("Work Letter"), but in no event later than
 20 _
13a April 1, 2023 (the "Sublease Commencement Date"). Subtenant shall be granted partial possession of the premises on January 1, 2023, to perform Subtenant Improvements upon mutual execution of a sublease. (the "Sublease Commencement Date").
- c. **Sublease Termination Date.** The term of this Sublease shall terminate one (1) day prior to the termination date of the Master Lease, unless sooner terminated in accordance with the terms of this Sublease (the "Sublease Termination Date"). Subtenant shall have no right or option to extend this Sublease.
- d. **Base Rent.** Subtenant shall pay to Tenant monthly base rent (check one): ()
 Months 1-12: \$28.00/SF/FS/Year (\$28,697.67 per month) Months 13-24: \$29.00/SF/FS/Year (\$29,722.58 per month) Months 25-36: \$31.00/SF/FS/Year (\$31,772.42 per month) Months 37-48: \$33.00/SF/FS/Year (\$33,822.25 per month) Months 49-56: \$34.00/SF/FS/Year (\$34,847.17 per month)
 Rent shall be payable at Tenant's address shown in Section 1(h) below, or such other place designated in writing by Tenant.
- e. **Prepaid Rent.** Upon execution of this Sublease, Subtenant shall deliver to Tenant, one month, equal to the sum of \$ 28,697.67 as prepaid rent to be applied to Rent due for first month of the Sublease.
- f. **Security Deposit.** Upon execution of this Sublease, Subtenant shall deliver to Tenant, two months, equal to the sum of \$ 69,694.34 to be held as a security deposit pursuant to Section 5 below. The security deposit shall be in the form of cash, check or wire transfer.
- g. **Permitted Use.** The Subleased Premises shall be used only for .subject to the Master Lease, applicable zoning, and other laws, and for no other purpose without the prior written consent of Tenant (the "Permitted Use").
- h. **Notice and Payment Addresses:**



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601 Union St. Ste 2800
Seattle, WA 98101
Phone: 206-607-1700
Fax: 206-607-1701

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Form: SUB_LS Sublease Agreement
Rev.

912020

Tenant: Nelson Worldwide, Attn:
Email:

SUBLEASE AGREEMENT

Subtenant: Marchex, Inc.

Attn:
Email:

i. **Subtenant's Sublease Share.** Subtenant's Sublease Share of any operating costs, common area charges, additional rent, or other amounts payable by Tenant under the Master Lease is 5.4832% of such amounts, based upon the ratio of the rentable area of the Subleased Premises to the rentable area of the Master Premises.

2. PREMISES.

- a. **Lease of Premises.** Tenant leases to Subtenant, and Subtenant leases from Tenant the Subleased Premises upon the terms specified in this Sublease.
- b. **Acceptance of Premises.** Except as specified elsewhere in this Sublease, Tenant makes no representations or warranties to Subtenant regarding the Subleased Premises, including the structural condition of the Subleased Premises or the condition of all mechanical, electrical, and other systems on the Subleased Premises. Except for any subtenant improvements to be completed by Tenant as described in the Work Letter attached as Exhibit 4 ("Tenant's Work"), Subtenant shall accept the Subleased Premises and its appurtenances in their respective AS-IS, WHERE-IS condition, and shall further be responsible for performing any work necessary to bring the Subleased Premises into a condition satisfactory to Subtenant. By signing this Sublease, Subtenant acknowledges that it has had adequate opportunity to investigate the Subleased Premises, acknowledges responsibility for making any corrections, alterations and repairs to the Subleased Premises (other than Tenant's Work), and acknowledges that the time needed to complete any such items shall not delay the Sublease Commencement Date.
- c. **Subtenant Improvements.** The Work Letter attached as Exhibit 4 sets forth all of Tenant's Work, if any, and all improvements to be completed by Subtenant ("Subtenant's Work"), if any, that will be performed on the Subleased Premises. Responsibility for design, payment and performance of all such work shall be as set forth in the Work Letter.

3. **TERM.** The term of this Sublease shall commence on the Commencement Date and shall end on the Termination Date (the "Term").

- a. **Early Possession.** Subtenant acknowledges that Tenant may need to obtain Landlord's consent to this Sublease as provided in Sections 21 and 24 of this Sublease prior to Subtenant occupying the Subleased Premises, and that Subtenant shall not occupy the Subleased Premises without the prior written consent of Tenant. In the event Tenant gives Subtenant access to the Premises preceding the Sublease Commencement Date for the purpose of installing Subtenant's furniture, telecommunications, fixtures, telephone systems and computer cabling and the performance of Subtenant's Work, if any, such access shall be fully coordinated with Tenant in advance and Subtenant shall not interfere with Tenant's Work. All of the terms and conditions of this Sublease, including Subtenant's insurance and indemnification obligations, shall apply during such time, except for payment of Base Rent. If Subtenant occupies the Subleased Premises before the Sublease Commencement Date specified in Section 1, then such date of occupancy shall not advance the Sublease Commencement Date or Sublease Termination Date set forth above.



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Form: SUB_LS Sublease Agreement Rev.

9/2020

SUBLEASE AGREEMENT

Delayed Possession. Tenant shall act diligently to make the Subleased Premises available to Subtenant, provided, however, that neither Tenant nor any agent or employee of Tenant shall be liable for any damage or loss due to Tenant's inability or failure to deliver possession of the Premises to Subtenant as provided in this Sublease. If possession is delayed, the Sublease Commencement Date set forth in Section 1 shall also be delayed, but the Sublease Termination Date shall not be extended by such delay. If Tenant has not delivered possession of the Subleased Premises to Subtenant within days ((60) days if not filled in) after the Sublease Commencement Date specified in Section 1 (check one): Subtenant may elect to cancel this Sublease by giving written notice to Tenant no later than ((10)

 days if not filled in) after such time period ends, or then all Base Rent and Additional Rent (as defined below) shall be abated for each one (1) day after the Sublease Commencement Date during which possession of the Subleased Premises has not been delivered to Subtenant. If Subtenant gives notice of cancellation, as Subtenant's sole and exclusive remedy, this Sublease shall be cancelled, all prepaid rent and security deposits shall be refunded to Subtenant, and neither Tenant nor Subtenant shall have any further obligations to the other.

Notwithstanding anything in this Section 3 to the contrary, to the extent that any portions of the Tenant's Work or the Subtenant's Work have not been completed in time for the Subtenant to occupy or take possession of the Subleased Premises on the Sublease Commencement Date due to the failure of Subtenant to fulfill any of its obligations under this Sublease ("Subtenant Delays"), the Sublease shall nevertheless commence on the Sublease Commencement Date, including without limitation, Subtenant's obligation to pay Base Rent and Additional Rent, as set forth in Section 1, or upon the date that the Sublease Commencement Date would have occurred but for the Subtenant Delays.

4. RENT.

Payment of Rent. Subtenant shall pay Tenant without notice, demand, deduction or offset, in lawful money of the United States, the monthly Base Rent stated in Section 1 in advance on or before the first day of each month during the Sublease Term beginning on (check one): the Sublease Commencement Date, or (if no date specified, then on the Sublease Commencement Date), and any other additional payments due to Tenant ("Additional Rent", and together with Base Rent, the "Rent") when required under this Sublease. Payments for any partial month during the Term shall be prorated. All payments due to Tenant under this Sublease, including late fees and interest, shall also constitute Additional Rent, and upon Subtenant's failure to pay any such costs, charges or expenses, Tenant shall have the same rights and remedies as otherwise provided in this Sublease for the failure of Subtenant to pay Rent.

b. **Late Charges; Default Interest.** If any sums payable by Subtenant to Tenant under this Sublease are not received within five (5) days of their due date, Subtenant shall pay Tenant an amount equal to the sum which would be payable by Tenant to the Landlord for an equivalent default under the Master Lease or 5% of the delinquent amount for the cost of collecting and handling such late payment in addition to the amount due and as Additional Rent, whichever is greater. All delinquent sums not paid by Subtenant within five (5) business days of the due date shall, at Tenant's option, bear interest at the rate the Tenant would pay the Landlord under the Master Lease for an equivalent default or the highest rate of interest allowable by law, whichever is less. Interest on all delinquent amounts shall be calculated from the original due date to the date of payment.

c. **Less Than Full Payment.** Tenant's acceptance of less than the full amount of any payment due from Subtenant shall not be deemed an accord and satisfaction or compromise of such payment unless Tenant specifically consents in writing to payment of such lesser sum as an accord and satisfaction or compromise of the amount which Tenant claims. Any portion that remains to be paid by Tenant shall be subject to the late charges and default interest provisions of this Section.

5. **SECURITY DEPOSIT.** Upon execution of this Sublease, Subtenant shall deliver to Tenant the security deposit specified in Section 1 above. Tenant's obligations with respect to the security deposit are those of a debtor and



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not of a trustee, and Tenant may commingle the security deposit with its other funds. If Subtenant defaults in the performance of any covenant or condition of this Sublease, Tenant shall have the right, but not the obligation, to use or retain all or any portion of the security deposit for the payment of: (i) Base Rent, Additional Rent, or any other sum as to which Subtenant is in default; or (ii) the amount Tenant spends or may become obligated to spend, or to compensate Tenant for any losses incurred by reason of Subtenant's default.

Subtenant acknowledges, however, that the security deposit shall not be considered as a measure of Subtenant's damages in case of default by Subtenant, and any payment to Tenant from the security deposit shall not be construed as a payment of liquidated damages for Subtenant's default. If at any time during the Term of the Sublease the security deposit delivered by Subtenant becomes insufficient to cover the amounts required under this Section 5, whether or not due to Tenant's application of all or a portion of the security deposit contemplated by this Section, Subtenant shall, within five (5) days after written demand therefore by Tenant, deposit with Tenant an amount sufficient to replenish the security deposit to the amount required in Section 1 above. If Subtenant is not in default of any covenant or condition of this Sublease at the end of the Term, Tenant shall return any unused portion of the security deposit without interest within 30 days after the surrender of the Subleased Premises by Subtenant in the condition required by Section 9 of this Sublease.

6. **MASTER LEASE.** Tenant represents to Subtenant that as of the effective date of this Sublease: (a) Tenant has delivered to Subtenant a complete copy of the Master Lease (which may contain redacted business terms), which represents all agreements between Landlord and Tenant relating to the leasing, use, and occupancy of the Subleased Premises, and (b) Tenant has not received notice of an uncured breach or default from Landlord under the Master Lease. Tenant shall not agree to an amendment to the Master Lease which would have an adverse effect on Subtenant's occupancy of the Subleased Premises or its intended use of the Subleased Premises, without obtaining Subtenant's prior written consent, which consent shall not be unreasonably withheld, conditioned, or delayed. Subtenant represents that it has read and is familiar with the terms of the Master Lease.

This Sublease is subject to and subordinate to the Master Lease. If the Master Lease terminates, this Sublease shall automatically terminate. Tenant and Subtenant shall not, by their omission or act, do or permit anything to be done which would cause a default under the Master Lease. If the Master Lease terminates or is forfeited as a result of a default or breach by Tenant or Subtenant under this Sublease and/or the Master Lease, then the defaulting party shall be liable to the non-defaulting party for the damage suffered as a result of such termination or forfeiture. Tenant shall exercise diligent, commercially reasonable efforts to cause Landlord to perform its obligations under the Master Lease for the benefit of the Subtenant.

All the terms, covenants and conditions contained in the Master Lease are incorporated into and made a part of this Sublease by this reference as if Tenant were the landlord under the Master Lease, the Subtenant were the tenant under the Master Lease, and the Subleased Premises were the Master Premises, except as may be

inconsistent with the terms contained in this Sublease and except for the following: specified).

(none if not

7. **ADDITIONAL CHARGES.** If Tenant shall be charged for additional rent or other sums pursuant to the provisions of the Master Lease, Subtenant shall be liable for its Sublease Share, as stated in Section 1 above, of such additional rent or sums, including without limitation, payments for taxes, common area charges, utilities and services, and operating costs. Subtenant shall be responsible for determining the availability of utilities and for determining the adequacy of their capacities for Subtenant's needs. Subtenant shall install and connect, as necessary, and directly pay for all water, sewer, gas, janitorial, electricity, garbage removal, heat, telephone, internet, cable services, and other utilities and services used by Subtenant at the Subleased Premises during the Term to the extent not already provided by and/or billed by Tenant or Landlord. Notwithstanding the foregoing, if Subtenant's use of the Premises incurs utility service charges which are above those usual and customary for the Permitted Use, Tenant reserves the right to require Subtenant to pay a reasonable additional charge for such usage. If Subtenant shall procure any additional service for the Subleased Premises, including but not limited to after-hours HVAC services, Subtenant shall pay for same at the rates charged by Landlord and shall make such payment to Tenant or to Landlord, as Tenant shall direct. Any sums payable by Subtenant under this Section shall constitute Additional Rent and shall be paid to Tenant no later than five (5) days before they are due from Tenant to Landlord under the Master Lease. If Tenant shall



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receive any refund for Additional Rent or sums paid under the Master Lease, then, to the extent such refund relates to time periods falling within the Term of this Sublease and, unless otherwise prohibited by law Subtenant is not in default of terms of this Sublease, including but not limited to any payment obligations hereunder, Subtenant shall receive a refund proportionate to the amounts previously paid by Subtenant for the same. Tenant shall, upon request by Subtenant, furnish Subtenant with copies of all statements received from Landlord of actual or estimated Additional Rent or other sums charged under the Master Lease. Notwithstanding anything in this Sublease to the contrary, the only services or utilities to which Subtenant is entitled under this Sublease are those to which Tenant is entitled under the Master Lease.

8. **ALTERATIONS.** Subtenant may make alterations, additions or improvements to the Subleased Premises (the "Alterations"), only with the prior written consent of Tenant and, to the extent required by the Master Lease, Landlord. The term "Alterations" shall not include: (i) any of Subtenant's Work approved by Tenant pursuant to Exhibit 4, and (ii) the installation of shelves, movable partitions, or Subtenant's equipment and trade fixtures, which may be installed and removed without damaging existing improvements or the structural integrity of the Subleased Premises, Master Premises, Building, or Property, and Tenant's consent shall not be required for Subtenant's installation of those items except to the extent Tenant must obtain the consent of Landlord under the Master Lease for such installations. Subtenant shall perform all work within the Subleased Premises at Subtenant's expense in compliance with all applicable laws and shall complete all Alterations in accordance with plans and specifications approved by Tenant, using contractors approved by Tenant, and in a manner so as to not unreasonably interfere with other tenants. Subtenant shall pay when due, all claims for labor or materials furnished to or for Subtenant at or for use in the Subleased Premises, which claims are or may be secured by any mechanics' or materialmen's liens against the Subleased Premises or Property or any interest therein and Subtenant shall defend, indemnify and hold harmless Tenant and Landlord from and against any liens placed on the Subleased Premises to the extent required in the Master Lease. Except as otherwise provided in the Work Letter attached as Exhibit 4 with respect to Subtenant's Work, Subtenant shall remove all Alterations at the end of the Sublease term unless Tenant conditioned its consent upon Subtenant leaving a specified Alteration at the Subleased Premises, in which case Subtenant shall not remove such Alteration and it shall become Tenant's property. Subtenant shall immediately repair any damage to the Subleased Premises or adjacent portions of the Master Premises, Building and Property caused by installation and/or removal of improvements performed as part of Subtenant's Work and/or Alterations.
9. **REPAIRS AND MAINTENANCE; SURRENDER.** Subtenant shall, at its sole cost and expense, maintain the Subleased Premises in good condition and promptly make all repairs and replacements, whether structural or non-structural, necessary to keep the Subleased Premises safe and in good condition, including all utilities and other systems serving the Subleased Premises. Subtenant shall not damage any demising wall or disturb the structural integrity of the Subleased Premises and shall promptly repair any damage or injury done to any such demising walls or structural elements caused by Subtenant or its employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees. If Subtenant fails to maintain or repair the Subleased Premises, Tenant may enter the Subleased Premises and perform such repair or maintenance on behalf of Subtenant. In such case, Subtenant shall be obligated to pay to Tenant immediately upon receipt of demand for payment, as Additional Rent, all costs incurred by Tenant in performing such repair or maintenance on behalf of Subtenant. Subtenant shall be obligated to repair or maintain only those portions of the Subleased Premises as required of Tenant under the Master Lease. Tenant shall not be required to perform any maintenance, repairs, or improvements that are the obligation of Landlord under the Master Lease (provided that Tenant shall exercise diligent, commercially reasonable efforts to cause Landlord to perform its obligations under the Master Lease for the benefit of the Subtenant) or to make any changes to the Subleased Premises because of the enactment of any law, ordinance, regulation, order or code during the Term. Notwithstanding anything in this Section to the contrary, Subtenant shall not be responsible for any repairs to the Subleased Premises made necessary by the acts of Tenant, Landlord, or their respective employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees.

Upon expiration or earlier termination of the Term, Subtenant shall promptly and peacefully surrender the Subleased Premises to Tenant, together with all keys, in as good condition as when received by Subtenant or as thereafter improved (but subject to any obligations to remove any Subtenant's Work and Alterations and/or to restore the same as provided elsewhere in this Sublease), reasonable wear and tear and insured casualty excepted.



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10. **ACCESS AND RIGHT OF ENTRY.** After reasonable notice from Tenant (except in cases of emergency, where no notice is required), Subtenant shall permit Tenant and/or Landlord and their respective agents, employees and contractors to enter the Subleased Premises at reasonable times to make repairs, alterations, improvements or inspections. This Section shall not impose any repair or other obligation upon Tenant or Landlord not expressly stated elsewhere in this Sublease. After reasonable notice to Subtenant, each of Tenant and Landlord, as the case may be, shall have the right to enter the Subleased Premises for the purpose of (a) showing the Subleased Premises to prospective purchasers or lenders at any time, and to prospective tenants within 180 days prior to the expiration or sooner termination of the Term; and (b) posting "for lease" signs within 180 days prior to the expiration or sooner termination of the Term.
- 11 **DESTRUCTION OR CONDEMNATION.**
- a. **Damage and Repair.** If either Landlord or Tenant terminates the Master Lease as a result of condemnation of or casualty to the Subleased Premises, Master Premises, or Building or Property in accordance with the Master Lease, this Sublease shall terminate on the same date and in accordance therewith. If the Subleased Premises or the portion of the Building or Property reasonably necessary for Subtenant's occupancy are damaged, destroyed or rendered untenantable, by fire or other casualty, Tenant may, at its option: (a) terminate this Sublease, or (b) restore (or cause Subtenant to restore) the Subleased Premises and the portion of the Building and Property reasonably necessary for Subtenant's occupancy to the same or substantially similar condition that existed before the casualty event. Provided, however, if such casualty event occurs during the last six (6) months of the Term, then either Subtenant or Tenant may elect to terminate this Sublease. If, within 60 days after Tenant's receipt of written notice from Subtenant that Subtenant deems the Subleased Premises or the portion of the Property reasonably necessary for Subtenant's occupancy untenantable, Tenant fails to notify Subtenant of its election to restore those areas, or if Tenant is unable to restore those areas which Tenant is expressly required hereunder to restore within six (6) months of the date of the casualty event, then Subtenant may elect to terminate this Sublease by written notice given to Tenant at any time prior to the date on which Tenant substantially completes restoration of those areas which it is required hereunder to restore.
- If Tenant restores the Subleased Premises or the Property as provided under this Section, Tenant shall proceed with reasonable diligence to complete the work, and Base Rent shall be abated in the same proportion as the untenantable portion of the Subleased Premises bears to the whole Subleased Premises, provided that there shall be a Base Rent abatement only if the damage or destruction of the Subleased Premises or the Property did not result from, or was not contributed to directly or indirectly by, the act, fault or neglect of Subtenant or Subtenant's employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees. No damages, compensation or claim shall be payable by Tenant for Subtenant's inconvenience, loss of business or annoyance directly, incidentally or consequentially arising from any repair or restoration of any portion of the Subleased Premises, Master Premises, Building, or Property. Tenant shall have no obligation to carry insurance of any kind for the protection of Subtenant or any Alterations or improvements paid for or installed by or on behalf of Subtenant; any Tenant's Work or Subtenant's Work identified in Exhibit 4 (regardless of who may have completed them); Subtenant's furniture; or on any fixtures, equipment, improvements or appurtenances of Subtenant under this Sublease: and Tenant shall not be obligated to repair any damage thereto or replace the same unless the damage is caused by Tenant's negligence.
- b. **Condemnation.** If either Landlord or Tenant terminates the Master Lease based on any provision in the Master Lease relating to eminent domain or conveyance under threat of condemnation, this Sublease shall terminate on the same date and in accordance therewith. If the Subleased Premises, the portion of the Building or Property reasonably necessary for Subtenant's occupancy, or 50% or more of the total rentable area of the Property are made untenantable by eminent domain, or conveyed under a threat of condemnation, this Sublease shall terminate at the option of each of Tenant and Subtenant as of the earlier of the date title vests in the condemning authority or the condemning authority first has possession of the portion of the Property taken by the condemning authority. All Rent and other payments required under this Sublease shall be paid to that date.



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If the condemning authority takes a portion of the Subleased Premises or the portion of the Property necessary for Subtenant's occupancy that does not render them untenable, then this Sublease shall continue in full force and effect and the Base Rent shall be equitably reduced based on the proportion by which the floor area of the Subleased Premises is reduced. The reduction in Base Rent shall be effective on the earlier of the date the condemning authority first has possession of such portion or title vests in the condemning authority. The Subleased Premises or the portion of the property reasonably necessary for Subtenant's occupancy shall not be deemed untenable if 25% or less of each of those areas is condemned. As between Tenant and Subtenant, Tenant shall be entitled to the entire award from the condemning authority attributable to the value of the Master Premises, Subleased Premises, or the Property or Building, and Subtenant shall make no claim for the value of its subleasehold estate or the Subtenant's Work or any Alterations. Subtenant shall be permitted to make a separate claim against the condemning authority for moving expenses or damages resulting from interruption in its business if this Sublease is terminated under this Section, provided that in no event shall Subtenant's claim reduce Landlord's or Tenant's awards.

12. **INSURANCE.** Subtenant shall procure and maintain, at its sole cost and expense, such liability insurance as is required to be carried by Tenant under the Master Lease, including, without limitation, obtaining additional insured endorsement(s) naming Tenant and Landlord as additional insureds, in the manner required therein, and property insurance as is required to be carried by Tenant under the Master Lease to the extent property insurance pertains to the Subleased Premises. If the Master Lease requires Tenant to insure leasehold improvements or Alterations, then Subtenant shall insure the leasehold improvements which are located in the Subleased Premises, as well as the Tenant's Work and Subtenant's Work, and any Alterations in the Subleased Premises performed by or on behalf of Subtenant. Subtenant shall furnish to Tenant certificates of Subtenant's insurance policies and copies of any endorsements required hereunder not later than 10 days prior to Subtenant's taking possession of the Subleased Premises. Tenant shall carry insurance as required by the Master Lease and shall not be obligated to carry property or liability insurance to the extent such insurance is an obligation of Landlord under the Master Lease.

Tenant and Subtenant hereby release each other and their respective employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees, from responsibility for and waive their respective claims for recovery of any loss or damage arising from any cause covered by insurance required to be carried by each of them. Each party shall provide notice to the insurance carrier or carriers of this mutual waiver of subrogation, and shall cause its respective insurance carriers to waive all rights of subrogation against the other. This waiver shall not apply to the extent of the deductible amounts to any such policies or to the extent of liability exceeding the limits of such policies. Tenant agrees to use reasonable efforts to obtain from Landlord for the benefit of Subtenant the same waiver of claims for any loss or damage arising from any cause covered by insurance required to be carried by Landlord under the Master Lease and, if and to the extent of such waiver received from Landlord, Subtenant agrees to grant the same waiver to Landlord.

13. **ASSIGNMENT AND SUBLETTING.** Subtenant shall not assign, sublet, mortgage, encumber or otherwise transfer any interest in this Sublease or any part of the Subleased Premises (collectively referred to as a "Transfer"), without first obtaining the written consent of Tenant, which shall not be unreasonably withheld or delayed. Tenant may condition its consent on (a) obtaining any required consent from Landlord; (b) Subtenant satisfying any conditions to the Transfer imposed by Landlord and/or required to be satisfied by Tenant under the Master Lease; and (c) such other reasonable conditions that Tenant may impose. No Transfer shall relieve Subtenant of any liability under this Sublease notwithstanding Tenant's consent to such Transfer. Consent to any Transfer shall not operate as a waiver of the necessity for Tenant's consent to any subsequent Transfer. In connection with each request for consent to a Transfer, Subtenant shall pay the reasonable cost of processing same, including attorneys' fees and any cost charged by Landlord for granting its consent under the Master Lease, upon demand of Tenant.



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As a condition to the Landlord's and Tenant's approval, if given, any potential assignee or sublessee otherwise approved shall assume all obligations of Subtenant under this Sublease and shall be jointly and severally liable with Subtenant and any guarantor for the payment of Rent and other charges due hereunder and performance of all obligations of Subtenant under this Sublease. In connection with any Transfer, Subtenant shall provide Landlord and Tenant with copies of all assignments, subleases and assumption agreements and related documents.

14. **MORTGAGE SUBORDINATION AND ATTORNMEN**. This Sublease shall automatically be subordinate to any mortgage or deed of trust created by Landlord to the extent the Master Lease is subordinate to the same mortgage or deed of trust, and Subtenant shall attorn upon the same terms and conditions as the Tenant in the Master Lease, provided Subtenant shall enjoy the terms and conditions relating to such subordination and attornment to the same extent as Tenant under the terms of the Master Lease.
15. **HOLDOVER**. If Subtenant shall, without the written consent of Tenant, remain in possession of the Subleased Premises and shall fail to return the Subleased Premises to Tenant after the expiration or termination of the Sublease, the tenancy shall be a holdover tenancy at sufferance, which may be terminated in accordance with Washington law; provided that, upon expiration of the Master Lease, such holdover tenancy by Subtenant shall automatically be deemed a tenancy at sufferance, terminable immediately. Unless Tenant agrees in writing to a different rental rate Subtenant agrees to pay to Tenant 150% of the rate of Base Rent last payable under this Sublease or the holdover rental rate provided in the Master Lease, whichever is greater, during any holdover tenancy, in addition to all Additional Rent and other sums due under this Sublease. All other terms of the Sublease shall remain in effect. Nothing herein shall be deemed Tenant's consent to holdover by Subtenant, or be deemed to permit Subtenant to remain in possession of the Subleased Premises on and after expiration of the Master Lease.
16. **NOTICES**. All notices under this Sublease shall be in writing and effective (i) when delivered in person or via overnight courier to the other party, or (ii) three (3) days after being sent by registered or certified mail to the other party at the addresses set forth in Section 1. The addresses for notices and payment of Rent set forth in Section 1 may be modified by either party only by written notice delivered in conformance with this Section.
17. **ESTOPPEL CERTIFICATES**. Upon the written request of Tenant, Subtenant shall execute and deliver to Tenant and/or Landlord or their designee a written estoppel certificate on the same terms and conditions as required of Tenant under the Master Lease.
18. **GENERAL**.
 - a. **Heirs and Assigns**. This Sublease shall apply to and be binding upon Tenant and Subtenant and their respective heirs, executors, administrators, successors and assigns.
 - b. **Brokers' Fees**. Subtenant represents and warrants to Tenant that except for Subtenant's Broker, if any, described and disclosed in Section 20 of this Sublease, it has not engaged any firm, finder or other person who would be entitled to any commission or fees for the negotiation, execution or delivery of this Sublease and shall indemnify and hold harmless Tenant against any loss, cost, liability or expense incurred by Tenant as a result of any claim asserted by any such firm, finder or other person on the basis of any arrangements or agreements made or alleged to have been made by or on behalf of Subtenant. Tenant represents and warrants to Subtenant that except for Tenant's Broker, if any, described and disclosed in Section 20, it has not engaged any firm, finder or other person who would be entitled to any commission or fees for the negotiation, execution or delivery of this Sublease and shall indemnify and hold harmless Subtenant against any loss, cost, liability or expense incurred by Subtenant as a result of any claim asserted by any such firm, finder or other person on the basis of any arrangements or agreements made or alleged to have been made by or on behalf of Tenant.
 - c. **Entire Agreement**. This Sublease, which incorporates portions of the Master Lease, contains all of the



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covenants and agreements between Tenant and Subtenant relating to the Subleased Premises. No prior or contemporaneous agreements or understandings pertaining to the Sublease shall be valid or of any force or effect and the covenants and agreements of this Sublease shall not be altered, modified, or amended to except in writing signed by Tenant and Subtenant.

- d. **Severability.** Any provision of this Sublease which shall prove to be invalid, void or illegal shall in no way affect, impair or invalidate any other provision of this Sublease.
 - e. **Governing Law.** This Sublease shall be governed by and construed in accordance with the laws of the State of Washington.
 - f. **Memorandum of Sublease.** Neither this Sublease nor any memorandum or "short form" thereof shall be recorded without Tenant's prior consent.
 - g. **Submission of Sublease Form Not an Offer.** One party's submission of this Sublease to the other for review shall not constitute an offer to sublease the Subleased Premises. This Sublease shall not become effective and binding upon Tenant and Subtenant until it has been fully executed by both Tenant and Subtenant, and consented to by Landlord (if required by the Master Lease).
 - h. **Authority of Parties.** Each party to this Sublease represents and warrants to the other that the person executing this Sublease on behalf of such party has the authority to enter into this Sublease on behalf of this Sublease, that the execution and delivery of this Sublease has been duly authorized, and that upon such execution and delivery this Sublease shall be binding upon and enforceable against such party upon execution and delivery.
19. **EXHIBITS AND RIDERS.** The following exhibits and riders are made a part of this Sublease: Exhibit 1: Legal Description of the Master Premises or Property
Exhibit 2: Master Lease
Exhibit 3: Outline of Subleased Premises Exhibit 4: Work Letter
Other: FF&E
20. **AGENCY DISCLOSURE.** At the signing of this Sublease,

Tenant is represented by ESN Pendergast & Rob Nielsen Of Jones Lang LaSalle Brokerage, INC. (insert name of Broker and Firm as licensed) (the "Tenant's Broker"); and Subtenant is represented by Stu Ford of Kidder Mathews (insert name of Broker and Firm as licensed) (the "Subtenant's Broker").

This Agency Disclosure creates an agency relationship between Subtenant, Subtenant's Broker (if any such person is disclosed), and any managing brokers who supervise Subtenant's Broker's performance (collectively the "Supervising Brokers"). In addition, this Agency Disclosure creates an agency relationship between Tenant, Tenant's Broker (if any such person is disclosed), and any managing brokers who supervise Tenant's Broker's performance (also collectively the "Supervising Brokers"). If Tenant's Broker and Subtenant's Broker are different real estate licensees affiliated with the same Firm, then both Tenant and Subtenant confirm their consent to that Firm and both Tenant's and Subtenant's Supervising Brokers acting as dual agents. If Tenant's Broker and Subtenant's Broker are the same real estate licensee who represents both parties, then both Subtenant and Tenant acknowledge that the Broker, his or her Supervising Brokers, and his or her Firm are acting as dual agents and hereby consent to such dual agency. If Tenant's Broker, Subtenant's Broker, their Supervising Brokers, or their Firm are dual agents, Subtenant and Tenant consent to Tenant's Broker, Subtenant's Broker, and their Firm being compensated based on a percentage of the rent or as otherwise disclosed on an attached addendum. Neither Tenant's Broker, Subtenant's Broker nor either of their Firms are receiving compensation from more than one party to this transaction unless otherwise disclosed on an attached addendum, in which case Subtenant and Tenant consent to such compensation.

Subtenant and Tenant confirm receipt of the pamphlet entitled "The Law of Real Estate Agency"



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SUBLEASE AGREEMENT

21. **CONSENT BY LANDLORD.** This Sublease shall be of no force or effect unless consented to by Landlord within 10 days of execution, if such consent is required under the Master Lease. Tenant and Subtenant agree for the benefit of Landlord that this Sublease and Landlord's consent shall not (a) create privity of contract between Landlord and Subtenant; (b) be deemed to have amended the Master Lease in any regard (unless Landlord shall have expressly agreed in writing to such amendment); or (c) be construed as a consent by Landlord to any future assignment or subletting. Landlord's consent shall, however, be deemed evidence of Landlord's agreement that Subtenant may use the Subleased Premises for the purpose set forth in Section 1(g) and that Subtenant shall be entitled to the waiver of claims and of the right of subrogation as provided in Section 12, Insurance, above.

22. **COMMISSION AGREEMENT.** If Tenant has not entered into a listing agreement (or other compensation agreement with Tenant's Firm), Tenant agrees to pay a commission to Tenant's Firm (as identified in the Agency Disclosure Section above) as follows:

00 \$1.50 per RSF per year to Subtenant's Broker payable within 30-days upon full execution of the sublease and landlord's consent & \$0.75 per RSF per year to Tenant's Broker payable on February 1, 2023.

- ~~entitled to~~ Sublease

\$ -- per rentable square foot of the Subleased Premises Other _

Tenant's Broker shall shall not (shall not if not filled in) be entitled to a commission upon the extension by Subtenant of the Term pursuant to any right reserved to Subtenant under the Sublease calculated as

provided above or Das follows _ s' ~~trading~~ shall

shall not (shall not if not filled in) be entitled to a commission upon any expansion of the Subleased Premises pursuant to any right reserved to Subtenant under the Sublease, calculated as provided above

or Das follows (if no box is checked, as provided above).

With respect to any commission earned upon execution of this Sublease or pursuant to any expansion of the Subleased Premises, Tenant shall pay upon execution of the Sublease. With respect to any commission earned upon extension of the Term of this Sublease, Tenant shall pay one-half upon execution of any amendment/addenda to the Sublease extending the Term and one-half upon the commencement date of such extended term. Tenant's Broker shall pay to Subtenant's Broker (as identified in the Agency Disclosure section above), the amount stated in a separate agreement between them or, if there is no agreement, \$ or % (complete only one) of any commission paid to Tenant's Broker, within five ys after receipt by Tenant's Broker.

If any other lease or sale is entered into between Tenant and Subtenant pursuant to a right reserved to Subtenant under the Sublease, Tenant D shall D shall not (shall not if not filled in) pay an additional commission according to any commission agreement or, in the absence of one, according to Tenant's Broker's commission schedule in effect as of the execution of this Sublease. Tenant's successor shall be obligated to pay any unpaid commissions upon any transfer of this Sublease and any such transfer shall not release the transferor from liability to pay such commissions.

Subtenant (Marchex) Broker - 12,299sf x \$1.50/sf/yr x 4.67yr = \$86,154.50 Tenant (NELSON) Broker - 12,299sf x \$0.75/sf/yr x 4.67yr == \$43,077.25

23. **BROKER PROVISIONS.**

TENANT'S BROKER AND SUBTENANTS BROKER HAVE MADE NO REPRESENTATIONS OR WARRANTIES CONCERNING THE SUBLEASED PREMISES; THE MEANING OF THE TERMS AND CONDITIONS OF THIS SUBLEASE; LANDLORD'S, TENANT'S OR SUBTENANT'S FINANCIAL STANDING; ZONING; COMPLIANCE OF THE SUBLEASED PREMISES WITH APPLICABLE LAWS; SERVICE OR CAPACITY OF UTILITIES; OPERATING COSTS; OR HAZARDOUS MATERIALS. LANDLORD, TENANT AND SUBTENANT ARE EACH ADVISED TO SEEK INDEPENDENT LEGAL ADVICE ON THESE AND OTHER MATTERS ARISING UNDER THIS SUBLEASE.



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SUBLEASE AGREEMENT

TENANT:



SUBTENANT:

TENANT:


By:
CEO

Its:

SUBTENANT:

MICHAEL ARENDS

By:
ce-o
Its:

24. LANDLORD'S CONSENT.

Per separate agreement

((@)JLL

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SUBLEASE AGREEMENT

STATE OF WASHINGTON COUNTY OF

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This record was acknowledged before me on

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, 2022, by Vl

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Notary Public for the State of Washington

Notary Public for the State of Washington

My commission expires:

Oq

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STATE OF ~~WASHINGTON~~ Ohio

COUNTY OF Butler. This record was acknowledged before me on

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Sherrica Walker
Notary Public for the State of Washington

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SHERRICA A WALKER
Notary Public State of Ohio
My Comm. Expires November 12, 2025

My commission expires:

);!QS



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SUBLEASE AGREEMENT

EXHIBIT 1
[Legal Description of Master Premises or Property]

The real property which comprises the Metropolitan Tract is hereby legally described as follows:

LOTS A, B, C AND D OF RAINIER MASTER CONDOMINIUM RECORDED UNDER RECORDING NUMBER 201709000102S, RECORDS OF KING COUNTY, WASHINGTON, AND LOTS 2, 3, 6 AND Z BLOCK 16 ACQUISITION TO THE TOWN OF SEATTLE, AS LAID OUT ON THE CLAIMS OF C.P. BOREN AND A.A. DENNY, J.Y. ANGLER, YESLER (COMMONLY KNOWN AS C.D. BOREN'S ADDITION TO THE CITY OF SEATTLE) ACCORDING TO THE PLAT THEREOF RECORDED IN VOLUME I OF PLATS PAGE 25, IN KING COUNTY, WASHINGTON, AND THOSE PORTIONS OF THE UNIVERSITY 10 ACRE LOT, LOTS 1, 2 AND 3 AND ALL OF LOTS 4, 5 AND 6, BLOCK 3, ADDITION TO THE TOWN OF SEATTLE AS LAID OUT BY A DENNY (COMMONLY KNOWN AS A.A. DENNY'S 2ND ADDITION TO THE CITY OF SEATTLE) ACCORDING TO THE PLAT THEREOF, RECORDED IN VOLUME I OF PLATS PAGE 30, RECORDS OF KING COUNTY WASHINGTON

EXCEPT THOSE PORTIONS CONDEMNED IN KING COUNTY SUPERIOR COURT AS PROVIDED BY CONDEMNATION ORDINANCE NUMBERS 14345 AND 18188 OF CITY OF SEATTLE:

MORE PARTICULARLY DESCRIBED AS FOLLOWS:

COMMENCING AT A FOUND PUNCHED BRASS ROD IN CONCRETE IN CASE AT THE INTERSECTION OF THE CENTERLINE OF UNION STREET AND 5TH AVENUE:

THENCE SOUTH 30°32'54" EAST ALONG THE CENTERLINE OF SAID 5TH AVENUE A DISTANCE OF 33.00 FEET TO THE NORTHERLY MARGIN OF CONDEMNATION ORDINANCE NUMBER JB188 ALSO BEING THE NORTHERLY LINE OF SAID 10 ACRE LOT:

THENCE CONTINUING SOUTH 30°37'54" EAST A DISTANCE OF 500 FEET TO THE NORTHERLY RIGHT OF WAY MARGIN OF UNION STREET AS CONDEMNED UNDER SAID CONDEMNATION ORDINANCE NUMBER 18188; AND TRUE POINT OF BEGINNING:

THENCE NORTH 59°22'13" EAST ALONG SAID SOUTHERLY MARGIN, A DISTANCE OF 168.84 FEET TO THE NORTHWEST CORNER OF BLOCK 16, ACQUISITION TO THE TOWN OF SEATTLE, & LAID OUT BY A.A. DENNY (COMMONLY KNOWN AS A.A. DENNY'S 3RD ADDITION TO THE CITY OF SEATTLE)

THENCE SOUTH 30°37'13" EAST ALONG THE WESTERLY LINE OF SAID BLOCK 16 AND SQUIGHEBLY PROJECTION THEREOF, A DISTANCE OF 382.90 FEET TO THE CENTERLINE OF UNIVERSITY STREET THENCE SOUTH 30°37'35" EAST ALONG THE WESTERLY LINE OF BLOCK 15 OF SAID PLAT AND NORTHERLY PROJECTION THEREOF, A DISTANCE OF 273.01 FEET TO THE NORTHERLY RIGHT OF WAY MARGIN OF SENECA STREET

THENCE SOUTH 59°21'01" WEST, ALONG SAID NORTHERLY MARGIN, A DISTANCE OF 168.65 FEET TO THE CENTERLINE OF SAID 5TH AVENUE:

THENCE SOUTH 59°21'39" WEST, ALONG SAID MARGIN, A DISTANCE OF 321.99 FEET TO THE CENTERLINE OF 5TH AVENUE:

THENCE SOUTH 59°23'00" WEST ALONG SAID MARGIN, A DISTANCE OF 169.05 FEET TO THE

SOUTHEAST CORNER OF BLOCK 4 OF SAID A.A. DENNY'S 2ND ADDITION TO THE CITY OF SEATTLE; THENCE DEPARTING SAID RIGHT OF WAY MARGIN NORTH, 30°37'41" WEST ALONG THE EASTERLY LINE OF SAID BLOCK 4 AND NORTHERLY PROJECTION THEREOF, A DISTANCE OF 272.87 FEET TO THE CENTERLINE OF SAID UNIVERSITY STREET:

00

THENCE NORTH 30°37'53" WEST ALONG THE SOUTHERLY PROJECTION OF THE EASTERLY LINE OF SAID BLOCK 3 OF SAID A.A. DENNY'S 2ND ADDITION A DISTANCE OF 33 FEET TO THE NORTHERLY RIGHT OF WAY MARGIN OF SAID UNIVERSITY STREET, AND SOUTHEAST CORNER OF SAID BLOCK 3 OF SAID A.A. DENNY'S 2ND ADDITION:

THENCE SOUTH 59°20'42" WEST ALONG SAID MARGIN A DISTANCE OF 111.00 FEET TO THE EASTERLY RIGHT OF WAY MARGIN OF 3RD AVENUE AS CONDEMNED UNDER CITY OF SEATTLE CONDEMNATION ORDINANCE NUMBER 14345:



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SUBLEASE AGREEMENT

THENCE NORTH 30°37'53" WEST ALONG SAID EASTERLY MARGIN, A DISTANCE OF 120.00 FEET TO THE SOUTHWEST CORNER OF SAID SAIP BLOCK:

THENCE NORTH 59°20'32" WEST ALONG SAID SOUTHERLY LINE, A DISTANCE OF 9.00 FEET TO THE SOUTHWEST CORNER THEREOF, ALSO BEING THE EASTERLY RIGHT OF WAY MARGIN OF SAID SAIP BLOCK:

THENCE NORTH 30°37'53" WEST ALONG SAID MARGIN, A DISTANCE OF 29.08 FEET TO A POINT:

161.00 FEET SOUTHERLY OF AND PARALLEL WITH THE SOUTHERLY RIGHT OF WAY MARGIN OF SAID UNION STREET BEING 71.00 FEET WIDE:

THENCE DEPARTING SAID MARGIN NORTH 59°21'10" EAST, A DISTANCE OF 69.00 FEET TO A LINE 69.00 FEET EASTERLY OF AND PARALLEL WITH SAID MARGIN:

THENCE NORTH 30°37'53" WEST ALONG SAID EASTERLY MARGIN, A DISTANCE OF 120.00 FEET TO THE SOUTHWEST CORNER OF SAID SAIP BLOCK:

THENCE NORTH 59°21'10" EAST ALONG SAID SOUTHERLY LINE, A DISTANCE OF 115.01 FEET TO THE NORTHWEST CORNER OF SAID CONDEMNATION ORDINANCE, NUMBER 18,188, HENCE SOUTH 30°39'50" EAST ALONG THE WESTERLY LINE OF SAID ORDINANCE, A DISTANCE OF 5.00 FEET TO THE SOUTHWEST CORNER OF SAID ORDINANCE:

THENCE NORTH 59°21'09" EAST ALONG THE SOUTHERLY LINE OF SAID ORDINANCE AND SOUTHERLY RIGHT OF WAY MARGIN OF UNION STREET, AND EASTERLY PROJECTION THEREOF A DISTANCE OF 105.00 FEET TO THE CENTERLINE OF SAID SAIP 4TH AVENUE:

THENCE NORTH 59°22'22" EAST ALONG SAID EASTERLY PROJECTION A DISTANCE OF 321.1 FEET TO THE POINT OF BEGINNING:

AND THAT PORTION DESCRIBED AS FOLLOWS:

COMMENCING AT SAIP INTERSECTION OF THE CENTERLINES OF UNION STREET AND 5TH AVENUE THENCE SOUTH 30°37'53" EAST ALONG THE CENTERLINE OF SAIP 5TH AVENUE, A DISTANCE OF 425.94 FEET TO THE CENTERLINE OF SAID UNIVERSITY STREET:

THENCE SOUTH 30°39'02" EAST ALONG SAID CENTERLINE OF 5TH AVENUE, A DISTANCE OF 306.03 FEET TO THE CENTERLINE OF SENECA STREET:

THENCE SOUTH 30°32'55" EAST ALONG SAID CENTERLINE OF 5TH AVENUE, A DISTANCE OF 33.00 FEET TO THE EASTERLY PROJECTION OF THE NORTHERLY LINE OF SAID BLOCK 16 OF SAID C.O. 6,000'S ADDITION:

THENCE SOUTH 30°32'55" EAST ALONG SAID CENTERLINE OF 5TH AVENUE, A DISTANCE OF 33.00 FEET TO THE NORTHEAST CORNER OF SAID BLOCK, AN EQUILATERAL TRIANGLE BEING FORMED:

THENCE SOUTH 30°32'55" EAST ALONG THE EASTERLY LINE OF SAID BLOCK, A DISTANCE OF 239.85 FEET TO THE SOUTHEAST CORNER THEREOF:

THENCE SOUTH 30°39'02" EAST ALONG SAID CENTERLINE OF 5TH AVENUE, A DISTANCE OF 306.03 FEET TO THE CENTERLINE OF SENECA STREET:

THENCE SOUTH 30°32'55" EAST ALONG SAID CENTERLINE OF 5TH AVENUE, A DISTANCE OF 33.00 FEET TO THE EASTERLY PROJECTION OF THE NORTHERLY LINE OF SAID BLOCK 16 OF SAID C.O. 6,000'S ADDITION:

THENCE SOUTH 30°32'55" EAST ALONG SAID CENTERLINE OF 5TH AVENUE, A DISTANCE OF 33.00 FEET TO THE NORTHEAST CORNER OF SAID BLOCK, AN EQUILATERAL TRIANGLE BEING FORMED:

THENCE SOUTH 30°32'55" EAST ALONG THE EASTERLY LINE OF SAID BLOCK, A DISTANCE OF 239.85 FEET TO THE SOUTHEAST CORNER THEREOF:

THENCE SOUTH 30°39'02" EAST ALONG SAID CENTERLINE OF 5TH AVENUE, A DISTANCE OF 306.03 FEET TO THE CENTERLINE OF SENECA STREET:

THENCE SOUTH 30°32'55" EAST ALONG SAID CENTERLINE OF 5TH AVENUE, A DISTANCE OF 33.00 FEET TO THE EASTERLY PROJECTION OF THE NORTHERLY LINE OF SAID BLOCK 16 OF SAID C.O. 6,000'S ADDITION:

THENCE SOUTH 30°32'55" EAST ALONG THE EASTERLY LINE OF SAID BLOCK, A DISTANCE OF 239.85 FEET TO THE SOUTHEAST CORNER THEREOF:

THENCE SOUTH 30°39'02" EAST ALONG SAID CENTERLINE OF 5TH AVENUE, A DISTANCE OF 306.03 FEET TO THE CENTERLINE OF SENECA STREET:

THENCE SOUTH 30°32'55" EAST ALONG SAID CENTERLINE OF 5TH AVENUE, A DISTANCE OF 33.00 FEET TO THE EASTERLY PROJECTION OF THE NORTHERLY LINE OF SAID BLOCK 16 OF SAID C.O. 6,000'S ADDITION:

THENCE SOUTH 30°32'55" EAST ALONG THE EASTERLY LINE OF SAID BLOCK, A DISTANCE OF 239.85 FEET TO THE SOUTHEAST CORNER THEREOF:

THENCE SOUTH 30°39'02" EAST ALONG SAID CENTERLINE OF 5TH AVENUE, A DISTANCE OF 306.03 FEET TO THE CENTERLINE OF SENECA STREET:

THENCE SOUTH 30°32'55" EAST ALONG SAID CENTERLINE OF 5TH AVENUE, A DISTANCE OF 33.00 FEET TO THE EASTERLY PROJECTION OF THE NORTHERLY LINE OF SAID BLOCK 16 OF SAID C.O. 6,000'S ADDITION:

BEGINNING, NUMBER 2:

THE ABOVE DESCRIBED, CONTAINS AN AREA OF 496,205 SQUARE FEET OR 11.3913 ACRES, MORE OR LESS AS SHOWN ON PLAT OF AN 8DP LOTS IN THE TOWN OF SEATTLE AS SHOWN OUT BY A &

SITUATED IN THE CITY OF SEATTLE KING COUNTY, WASHINGTON,

The Property is a portion of the Metropolitan Tract on which the Building is located, as more fully described as follows:

THAT PORTION OF UNIT D OF RAINIER MASTER CONDOMINIUM, RECORDED UNDER RECORDING NUMBER 2012050600102a, RECORDS OF KING COUNTY WASHINGTON:

MORE PARTICULARLY DESCRIBED AS FOLLOWS:

COMMENCING AT A POINT PUNCHED 6.8888 ROD, IN CONCRETE IN CASE AT THE INTERSECTION OF THE CENTERLINES OF UNION STREET AND 5TH AVENUE, HENCE NORTH 30°37'53" EAST ALONG THE CENTERLINE OF SAID UNION STREET, A DISTANCE OF 33.00 FEET TO THE NORTHERLY MARGIN OF SAID SAIP BLOCK, A DISTANCE OF 120.00 FEET TO THE SOUTHWEST CORNER OF SAID SAIP BLOCK:

THENCE NORTH 59°20'32" WEST ALONG SAID SOUTHERLY LINE, A DISTANCE OF 9.00 FEET TO THE SOUTHWEST CORNER THEREOF, ALSO BEING THE EASTERLY RIGHT OF WAY MARGIN OF SAID SAIP BLOCK:

THENCE NORTH 30°37'53" WEST ALONG SAID MARGIN, A DISTANCE OF 29.08 FEET TO A POINT:

161.00 FEET SOUTHERLY OF AND PARALLEL WITH THE SOUTHERLY RIGHT OF WAY MARGIN OF SAID UNION STREET BEING 71.00 FEET WIDE:

THENCE DEPARTING SAID MARGIN NORTH 59°21'10" EAST, A DISTANCE OF 69.00 FEET TO A LINE 69.00 FEET EASTERLY OF AND PARALLEL WITH SAID MARGIN:

THENCE NORTH 30°37'53" WEST ALONG SAID EASTERLY MARGIN, A DISTANCE OF 120.00 FEET TO THE SOUTHWEST CORNER OF SAID SAIP BLOCK:

THENCE NORTH 59°21'10" EAST ALONG SAID SOUTHERLY LINE, A DISTANCE OF 115.01 FEET TO THE NORTHWEST CORNER OF SAID CONDEMNATION ORDINANCE, NUMBER 18,188, HENCE SOUTH 30°39'50" EAST ALONG THE WESTERLY LINE OF SAID ORDINANCE, A DISTANCE OF 5.00 FEET TO THE SOUTHWEST CORNER OF SAID ORDINANCE:

THENCE NORTH 59°21'09" EAST ALONG THE SOUTHERLY LINE OF SAID ORDINANCE AND SOUTHERLY RIGHT OF WAY MARGIN OF UNION STREET, AND EASTERLY PROJECTION THEREOF A DISTANCE OF 105.00 FEET TO THE CENTERLINE OF SAID SAIP 4TH AVENUE:

THENCE NORTH 59°22'22" EAST ALONG SAID EASTERLY PROJECTION A DISTANCE OF 321.1 FEET TO THE POINT OF BEGINNING:

AND THAT PORTION DESCRIBED AS FOLLOWS:

COMMENCING AT SAIP INTERSECTION OF THE CENTERLINES OF UNION STREET AND 5TH AVENUE THENCE SOUTH 30°37'53" EAST ALONG THE CENTERLINE OF SAIP 5TH AVENUE, A DISTANCE OF 425.94 FEET TO THE CENTERLINE OF SAID UNIVERSITY STREET:

THENCE SOUTH 30°39'02" EAST ALONG SAID CENTERLINE OF 5TH AVENUE, A DISTANCE OF 306.03 FEET TO THE CENTERLINE OF SENECA STREET:

THENCE SOUTH 30°32'55" EAST ALONG SAID CENTERLINE OF 5TH AVENUE, A DISTANCE OF 33.00 FEET TO THE EASTERLY PROJECTION OF THE NORTHERLY LINE OF SAID BLOCK 16 OF SAID C.O. 6,000'S ADDITION:



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SUBLEASE AGREEMENT

DENNY (COMMONLY KNOWN AS AA DENNY'S 2ND ADDITION TO THE CITY OF SEATTLE) ACCORDING TO THE PLAT THEREOF, RECORDED IN VOLUME 1 OF PLATS PAGE 30, RECORDS OF KING COUNTY, WASHINGTON:

THENCE CONTINUING SOUTH 30°37'54" EAST, A DISTANCE OF 5.00 FEET TO THE SOUTHERLY RIGHT OF WAY MARGIN OF UNION STREET AS CONDEMNED UNDER SAID CONDEMNATION ORDINANCE NUMBER 18188

THENCE CONTINUING SOUTH 30°37'54" EAST ALONG THE CENTERLINE OF 5TH AVENUE AS SHOWN ON GRANT OF USE DOCUMENT UNDER RECORDED INSTRUMENT NUMBER 20110104001299, RECORDS OF KING COUNTY WASHINGTON, A DISTANCE OF 387.94 FEET TO THE CENTERLINE OF UNIVERSITY STREET, AS SHOWN ON SAID GRANT OF USE DOCUMENT:

THENCE SOUTH 30°39'02" EAST ALONG THE CENTERLINE OF SAID 5TH AVENUE AS SHOWN ON SAID GRANT OF USE DOCUMENT, A DISTANCE OF 33.00 FEET TO A LINE 33.00 FEET SOUTHERLY OF AND PARALLEL WITH SAID CENTERLINE OF UNIVERSITY STREET

THENCE DEPARTING SAID CENTERLINE NORTH 59°21'21" EAST, A DISTANCE OF 33.00 FEET TO THE TRUE POINT OF BEGINNING

THENCE CONTINUING NORTH 59°21'21" EAST ALONG SAID PARALLEL LINE, A DISTANCE OF 119.75 FEET TO A LINE 16.00 FEET WESTERLY OF AND PARALLEL WITH THE WESTERLY LINE OF BLOCK 15 ADDITION TO THE TOWN OF SEATTLE, AS LAID OUT BY A DENNY (COMMONLY KNOWN AS 8 8 PENTON'S 3RD ADDITION TO THE CITY OF SEATTLE)

THENCE NORTH 30°37'35" EAST, ALONG SAID PARALLEL LINE, A DISTANCE OF 240.01 FEET TO THE NORTHERLY RIGHT OF WAY MARGIN OF SENeca STREET

THENCE DEPARTING SAID PARALLEL LINE SOUTH 59°21'01" WEST ALONG SAID NORTHERLY MARGIN, A DISTANCE OF 119.65 FEET TO A LINE 33.00 FEET EASTERLY OF AND PARALLEL WITH SAID CENTERLINE OF SAID 5TH AVENUE AS SHOWN ON SAID GRANT OF USE DOCUMENT:

THENCE NORTH 30°39'02" WEST ALONG SAID PARALLEL LINE A DISTANCE OF 240.03 FEET TO THE TRUE POINT OF BEGINNING

THE ABOVE DESCRIBED CONTAINS AN AREA OF 28,731 SQUARE FEET OR 0.6596 ACRE MORE OR

SITUATE IN THE CITY OF SEATTLE, KING COUNTY, WASHINGTON.



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SUBLEASE AGREEMENT

EXHIBIT 2
[Master Lease]



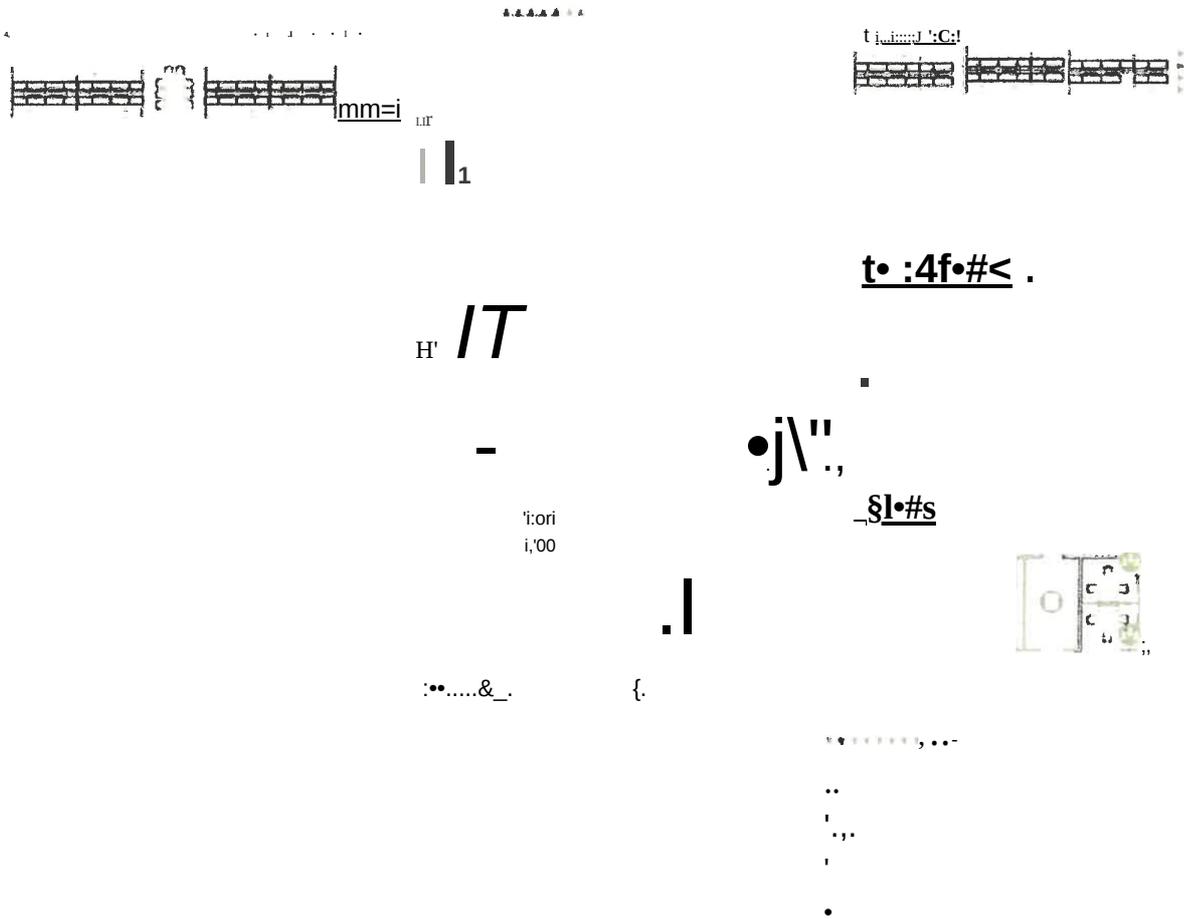
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SUBLEASE AGREEMENT

EXHIBIT 3
[Outline of the Subleased Premises]





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SUBLEASE AGREEMENT

EXHIBIT 4
[Work Letter]

CHECK IF APPLICABLE:

1. D Improvements to be Completed by Tenant

- A. Performance of Improvements. Subject to the terms and conditions of this Sublease, the Master Lease, and any Improvement Allowance provided herein, Tenant's obligations to improve the Subleased Premises shall be limited to the work ("Tenant's Work") described below. All other work shall be performed by Subtenant at its sole expense or, if performed by Tenant, shall be promptly reimbursed by Subtenant. Tenant's Work shall be deemed to be "substantially complete" on the date that Tenant notifies Subtenant that Tenant's Work is complete, except for punch list items that do not impair the use or operations thereof, would not prevent Subtenant from occupancy and/or performing Subtenant's Work, and except for that portion of Tenant's Work, if any, which cannot be feasibly performed before Subtenant completes Subtenant's Work, fixturing, or decorating.

The work to be done by Tenant in satisfying its obligation to complete Tenant's Work under the Sublease shall be limited to the following (check one):

D As identified below (check and describe all that apply); D FLOOR:

D WALLS:

CEILING: _

D LIGHTING:

D WASHROOM(S):

D ELECTRICAL:

D HVAC:

B I OTHER: Tenant shall professionally clean the premises and the carport

D As mutually agreed upon between Tenant and Subtenant as follows:

- a. Within _ days (ten (10) days if not filled in) after mutual acceptance of the Sublease, Subtenant shall prepare and submit for Tenant's review a preliminary sketch of the improvements to be performed by Tenant ("Preliminary Tenant Plan"). Tenant and Subtenant shall cooperate in good faith to adopt a mutually acceptable Preliminary Tenant Plan. Subtenant acknowledges that the timelines set forth in this Section 1 with respect to Tenant's promulgation and approval of the Tenant Improvement Plans (as such term is defined herein) may be subject to reasonable extensions to the extent additional time is necessary to obtain any consent of Landlord that may be required under the Master Lease.
- b. Upon Tenant's approval of the Preliminary Tenant Plan, Tenant shall promptly prepare (or cause to be prepared) construction documents (i.e., those plans used for submittal to the appropriate governmental bodies for all necessary permits and approvals for Tenant's Work, if any) for Subtenant's review and approval, which approval shall not be unreasonably withheld, conditioned or delayed. The construction documents, once approved, shall then constitute "Tenant's Improvement Plans."
- c. Tenant shall submit the Tenant's Improvement Plans to the appropriate governmental body for plan checking and issuance of necessary permits and approvals, as applicable. Tenant and Subtenant shall cooperate and use commercially reasonable efforts to cause to be made any changes in the Tenant's Improvement Plans necessary to obtain such permits and approvals; provided, however, any costs and expenses resulting from the foregoing changes to Tenant's



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SUBLEASE AGREEMENT

Work that exceed the Improvement Allowance shall be borne at Subtenant's sole cost and expense.

- B. Defects in Tenant's Work. If Subtenant fails to notify Tenant of any defects in the Tenant's Work within 30 days of delivery of possession of the Premises to Subtenant, Subtenant shall be deemed to have accepted the Subleased Premises in their then-existing condition. If Subtenant discovers any major defects in the Tenant's Work during this 30-day period that would prevent Subtenant from using the Subleased Premises for the Permitted Use, Subtenant shall notify Tenant and the Sublease Commencement Date shall be delayed until after Tenant has notified Subtenant that Tenant has corrected the major defects and Subtenant has had five (5) days to inspect and approve the Subleased Premises. The Sublease Commencement Date shall not be delayed if Subtenant's inspection reveals minor defects in the Tenant's Work that will not prevent Subtenant from using the Subleased Premises for the Permitted Use. Subtenant shall prepare a punch list of all minor defects in Tenant's Work and provide the punch list to Tenant, which Tenant shall promptly correct.

2. D Improvements to be Completed by Subtenant

- A Performance of Improvements. Subject to the terms and conditions of the Sublease, the Master Lease, and any Improvement Allowance provided herein, Subtenant shall complete, at its sole cost and expense, the work identified in the Subtenant Improvement Plans (as such term is defined below) adopted by Tenant and Subtenant in accordance with the provisions below ("Subtenant's Work"). Subtenant's Work shall be performed lien free and in a workmanlike manner, without interference with other work, if any, being done in the Subleased Premises, Master Premises, or Property, including any of Tenant's Work, and in compliance with all laws and reasonable rules promulgated from time to time by Tenant, its architect and contractors, Landlord or its property manager. The work to be done by Subtenant in satisfying its obligation to complete Subtenant's Work under the Sublease shall be limited to the following (check one):

As identified below (check and describe all that apply);

WALLS:

FLOOR: _

CEILING:

LIGHTING:

0 WASHROOM(S):

ELECTRICAL:

HVAC: _

OTHER: _

D As mutually agreed upon between Tenant and Subtenant as follows:

- a. Within _ days (ten (10) days if not filled in) after mutual acceptance of the Sublease, Subtenant shall prepare and submit for Tenant's review a preliminary sketch of the Subtenant Improvements ("Preliminary Subtenant Plan"). Tenant and Subtenant shall cooperate in good faith to adopt a mutually acceptable Preliminary Subtenant Plan. Subtenant acknowledges that the timelines set forth in this Section 2 with respect to Tenant's promulgation and approval of the Subtenant Improvement Plans (as such term is defined herein) may be subject to reasonable extensions to the extent additional time is necessary to obtain any consent of Landlord that may be required under the Master Lease.
- b. Upon approval of the Preliminary Subtenant Plan by Tenant, Subtenant shall promptly prepare construction documents (i.e., those plans used for submittal to the appropriate governmental bodies for all necessary permits and approvals for the Subtenant's Work, if any) for Tenant's review and approval. The construction documents, once approved, shall then constitute the



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SUBLEASE AGREEMENT

"Subtenant Improvement Plans."

- c. Upon approval by Tenant, Subtenant shall submit the Subtenant Improvements Plans to the appropriate governmental body for plan checking and issuance of necessary permits and approvals. Subtenant, with Tenant's approval, shall cause to be made any changes in the Subtenant Improvements Plans necessary to obtain such permits and approvals.
- d. Tenant makes no warranty or representation of any type or nature with respect to the adequacy or sufficiency of the Subtenant Improvements Plans for any purpose. Tenant makes no warranty or representation of any type or nature with respect to the quality, suitability, or ability of contractor or the quality of the work or materials supplied or performed with respect to the Subtenant Improvements by contractor, the subcontractors, Subtenant's agents, or any other person or entity.

B. General Requirements. Subtenant shall submit to Tenant, prior to the commencement of the construction of Subtenant's Work, the following information for Tenant's review and approval (check all that apply):

D The names, contact names, addresses, and license numbers of all general contractors and subcontractors Subtenant intends to use in the construction of Subtenant's Work.

DA reasonably detailed schedule for Subtenant's performance of Subtenant's Work (including, without limitation, the date on which Subtenant's Work will commence, the estimated date of completion of Subtenant's Work, and the date on which Subtenant expects to open for business in the Premises).

D Evidence of insurance as required in the Sublease and Master Lease and any other insurance usual and customary for performance of Subtenant's Work and requested by Tenant.

D Copies of all required governmental pennits.

C. Contractor Qualifications. All contractors and subcontractors to perform Subtenant's Work shall be licensed contractors, capable of performing quality workmanship and working in harmony with Tenant's general contractor in the Building. Upon notice from Tenant, Subtenant shall stop using (or cause contractor or any subcontractor to stop using) any person or entity disturbing labor harmony with any work force or trade engaged in performing Subtenant's Work or other work, labor, or services in or about the Building. All work shall be coordinated with any on-going construction work on the Building. Tenant shall have the right to disapprove, in Tenant's reasonable discretion, any contractor or subcontractor which Subtenant desires to engage for Subtenant's Work.

3. Improvement Allowance

Provided there is no uncured Event of Default by Subtenant under the Sublease, upon completion of Tenant's Work or Subtenant's Work, as applicable, Tenant shall provide an allowance ("Improvement Allowance") toward the costs and expenses associated with improvements to the Premises in accordance with the following (check one):

D \$ ___per rentable square foot of the Premises. The Improvement Allowance shall be used only for (choose one): D Tenant's Work, or D Subtenant's Work, excepting ___ . If costs associated with completing Subtenant's Work exceed the Improvement Allowance, or if any costs of Subtenant's Work are not to be paid out of the Improvement Allowance, then the excess or excluded amount shall be paid directly by Subtenant.

D None; Subtenant shall be obligated to pay all costs, expenses and fees associated with completing the Subtenant's Work in accordance with the Subtenant Improvement Plans.

D None; Tenant shall be obligated to pay all costs, expenses and fees associated with completing the

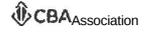


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SUBLEASE AGREEMENT

Tenant's Work in accordance with the Tenant Improvement Plans, however, excepting any costs related to Subtenants' furniture, cabling, fixtures and equipment, design services, and __, and in no event in an amount exceeding \$ __.

4.0 Removal of Improvements/Surrender. The following scope of Subtenant's Work (check one):

0 shall become the property of Tenant

shall be removed by Subtenant at its sole cost and expense upon the expiration or earlier termination of the Sublease Term:

1) JLL

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SUBLEASE AGREEMENT EXHIBIT 2

FF&E

Subtenant shall have the use of Sublandlord's existing furniture, fixtures, and equipment "FF&E" at no additional cost. A list of the furniture inventory is hereto attached as "FF&E"

List of Subsidiaries of the Registrant

	Name	Jurisdiction
1.	Marchex Paymaster, LLC	Delaware
2.	Marchex, LLC	Delaware
3.	Marchex Sales, LLC	Delaware
4.	Marchex CAH, Inc.	Delaware
5.	Telmetrics Corporation (formerly, Telmetrics Inc.)	Nova Scotia
6.	Marchex International, Ltd.	Ireland
7.	Archonic, LLC	Delaware
8.	Callcap, LLC (formerly, SITA Laboratories, Inc.)	Delaware
9.	DCCI Support Service, Inc.	Delaware
10.	Sonar Technologies, Inc.	Delaware

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Nos. 333-264328, 333-261840, 333-255254, 333-237344, 333-230538, 333-223898, 333-216935, 333-210367, 333-202868, 333-194509, 333-194508, 333-187469, 333-181327, 333-180212, 333-172967, 333-165536, 333-158394, 333-149790, 333-141797, 333-132957, 333-123753, and 333-116867) on Form S-8 and 333-249952 on Form S-3 of Marchex, Inc. of our report dated March 31, 2023, relating to the consolidated financial statements of Marchex, Inc., appearing in this Annual Report on Form 10-K of Marchex, Inc. for the year ended December 31, 2022.

/s/ RSM LLP US

Seattle, Washington
March 31, 2023

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-249952) and Form S-8 (Nos. 333-264328, 333-261840, 333-255254, 333-237344, 333-230538, 333-223898, 333-216935, 333-210367, 333-202868, 333-194509, 333-194508, 333-187469, 333-181327, 333-180212, 333-172967, 333-165536, 333-158394, 333-149790, 333-141797, 333-132957, 333-123753, and 333-116867) of Marchex, Inc. (the “Company”), of our report dated March 29, 2022, except for the effects of the revisions to correct deferred taxes described in Note 5, as to which the date is March 31, 2023, relating to the 2021 consolidated financial statements of the Company, appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2022.

/s/ Moss Adams LLP

Seattle, Washington
March 31, 2023

**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, Michael A. Arends, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 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: March 31, 2023

/s/ Michael A. Arends

Michael A. Arends
Vice Chairman
(Principal Financial Officer)

**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 Annual Report on Form 10-K 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 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: March 31, 2023

/s/ Edwin Miller

Edwin Miller
Chief Executive Officer
(Principal Executive Officer)

