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

FORM 10-K

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

For the fiscal year ended December 31, 2014

or

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

For the transition period from _____ to _____.

Commission File Number 000-50658

Marchex, Inc.

(Exact name of Registrant as specified in its charter)

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

520 Pike Street, Suite 2000, Seattle, Washington 98101
(Address of principal executive offices, including 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	**Name of Exchange on Which Registered**
Class B Common Stock, $0.01 par value per share	**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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

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

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately $398,556,441 as of June 30, 2014 based upon the closing sale price on the NASDAQ Global Select Market reported for such date. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

There were 5,232,636 shares of the registrant's Class A common stock issued and outstanding as of March 6, 2015 and 36,796,915 shares of the registrant's Class B common stock issued and outstanding as of March 6, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2015 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 and business strategy, expectations regarding our growth and the growth of the industry in which we operate, and plans and objectives of management for future operations, are inherently uncertain as they are based on our expectations and assumptions concerning future events. Any or all of our forward-looking statements in this report may turn out to be inaccurate. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. They may be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties, including 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. 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.

PART 1

ITEM 1. BUSINESS.

Overview

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

Marchex is a mobile advertising technology company. We provide products and services for businesses of all sizes that depend on consumer calls to drive sales. Our technology platform delivers performance-based, pay-for-call advertising across numerous mobile and online publishers to connect millions of high-intent consumers with businesses over the phone. Our call analytics technology facilitates call quality, analyzes calls in real time and measures the outcomes of calls to close the loop between digital marketing and offline transactions. We help large national brands and small-and medium-sized businesses ("SMBs") facilitate efficient and cost-effective marketing campaigns to drive calls and customer leads to their business. With our Archeo division, we provide a performance-based pay-per-click advertising service that connects advertisers with consumers across our owned and operated web sites as well as third party web sites and we also sell domain names.

Our technology-based products and services enable our customers to connect with consumers across leading third-party mobile and online channels, as well as our proprietary network of locally-focused web sites. We have direct relationships with large national advertisers and advertising agencies which utilize our products and services to plan, execute and measure their call-focused advertising campaigns. We also provide private-label performance marketing solutions for SMBs through a network of large reseller partners, which include Yellow Pages publishers, media and telecommunications companies and vertical marketing service providers. We enable these partners to sell pay-for-call advertising, call-analytics, search engine marketing and other digital marketing services to their millions of small business customers. We execute these campaigns for them using our technology. Our primary products offerings are:

- ***Marchex Call Marketplace.*** Through the Marchex Call Marketplace, we deliver a variety of call advertising products and services to national advertisers, advertising agencies and small advertiser reseller partners. The Marchex Call Marketplace is a mobile advertising solution focused on delivering

customers on a pay-for-call basis. We offer exclusive and preferred ad placements across numerous mobile and online media sources to drive advertisers qualified calls to their businesses. It leverages our Marchex Call Analytics platform to secure call tracking numbers and to provide qualified calls to advertisers by blocking spam and other telemarketing calls while working to optimize the return on investment for advertisers' marketing investment.

- ***Marchex Call Analytics***. Our Marchex Call Analytics technology platform provides data and insights that measure the performance of mobile, online and offline ad campaigns for advertisers and small business resellers. Our analytics technology tracks calls and helps advertisers understand which marketing channels, advertisements, keywords and creatives are driving calls to their business, allowing them to optimize their advertising expenditures across media channels. Call Analytics also includes call recording, call quality filtering and real-time call intelligence to provide rich insights into what is happening during a call and to measure the outcome of calls and return on investment. Advertisers pay us a fee for each call they receive from call-based ads we distribute through our sources of call distribution or for each phone number tracked based on a pre-negotiated rate.
- ***Local Leads***. Our Local Leads platform is a white-labeled, full service advertising solution for small business resellers, such as Yellow Pages providers and vertical marketing service providers, to sell call advertising, search marketing and other lead generation products through their existing sales channels to their small business advertisers. These calls and leads are then fulfilled by us across our distribution network, including mobile sources, and leading search engines. The lead services we offer to small business advertisers through our Local Leads platform include products typically available only to national advertisers, including pay-for-call, search marketing, ad creation and include advanced features such as call tracking, geo-targeting, campaign management, reporting, and analytics. The Local Leads platform is highly scalable and has the capacity to support hundreds of thousands of advertiser accounts. Reseller partners and publishers generally pay us account fees and agency fees for our products in the form of a percentage of the cost of every click or call delivered to their advertisers. Through our contract with Yellowpages.com LLC ("YP"), we generate revenues from our local leads platform. We also have a separate pay-for-call services arrangement with YP. Both arrangements expire in June 2015. YP is our largest reseller partner and was responsible for 28%, 25% and 24% of our total revenues for the years ended December 31, 2012, 2013 and 2014, respectively. We also have a separate distribution partner agreement with YP.

In addition to our call-driven business, we operate the Archeo Domains Marketplace, which enables the buying, selling and development of premium domain names, and includes more than 200,000 of our owned and operated websites. Our portfolio of websites contains thousands of U.S. ZIP code sites, including 90210.com, and other locally-focused sites such as Yellow.com, OpenList.com and geo-targeted sites. We monetize this portfolio via pay-per-click and banner advertising. and also make these domains available for sale to third parties.

We generate revenue from two business segments. Call-driven revenue consists of payments from advertisers for pay-for-call marketing services and for use of our Call Analytics technology. Call-driven revenue also consists of payments from our reseller partners for use of our technology platform and marketing services, which they offer to their small business customers, as well as payments from advertisers for cost-per-action services. Archeo revenue includes revenue generated from advertisements on our network of owned and operated websites and third-party distribution, as well as from the sale of domain names in our Domains Marketplace. Call-driven revenue accounted for more than 84% of total revenues for all periods presented. We operate primarily in domestic markets. For detail on revenue by segment and geographical area for the three most recent fiscal years, see *Note 11 Segment Reporting and Geographic Information* of the notes to our consolidated financial statements.

Industry Overview

Calls are critical for businesses to drive sales. For businesses of all sizes, in-bound phones calls are a key source of new customer leads and increased revenue. We believe consumers that call businesses directly typically have

higher purchase intent and are more likely to make a purchase or become a customer. According to BIA/Kelsey Local Commerce Monitor (LCM) survey in 2012, 61.3% of advertisers believe that in-bound calls from prospective customers are the single most important type of lead. Calls are particularly relevant in high-value categories, such as professional services, financial services, automotive and travel, where transaction values are large, complex or require additional information prior to completion. Calls are also important for local businesses that set appointments or sell products and services over the phone. According to 2012 data from BIA/Kelsey, advertisers in the U.S. spent $68 billion to drive telephone leads. Historically, the majority of this advertising has been spent on traditional media such as television, newspapers and directories. Now with the mass adoption of mobile, both large and small advertisers are increasingly seeking new marketing channels that allow them to connect with consumers over the phone.

Mobile search and calls from search are growing rapidly. Today we are witnessing an evolution in consumer behavior as Internet-enabled mobile devices proliferate and media consumption shifts to mobile devices. This trend is increasingly evident in the way consumers research products and services and connect with businesses when they are ready to make a purchase decision. BIA/Kelsey estimates that mobile search will generate 73 billion calls to businesses in 2018, up from 30 billion in 2013, and that the number of mobile searches will exceed searches on desktop computers by 2016. According to a 2013 study by Google/Ipsos, over 70% of mobile search users have used a click-to-call feature to connect with a business directly from their mobile devices. According to a BIA/Kelsey study in January 2014, mobile searches also have higher conversion rates in driving calls (57%) compared to desktop searches (7%). Mobile users are more ready-to-buy, in the right location and with a device whose core function is to make phone calls.

Ad budgets are shifting to performance-based models. As businesses have expanded their marketing through digital channels, they have increasingly turned to performance-based advertising formats in which they are only charged when a desired outcome is reached. Performance-based advertising models provide advertisers with greater transparency into their advertising spend and the ability to accurately measure results and return on investment. Over time, the online advertising market has experienced a dramatic shift from CPM-based banner and display advertisements to cost-per-click search advertising and other forms of performance marketing. According to the Interactive Advertising Bureau, performance-based formats accounted for only 7% of the $5 billion online advertising market in 1999, but grew to over 65% of the $40 billion market in 2013.

Calls are becoming the currency of mobile advertising. In 2013, the global mobile advertising market was $15 billion and is expected to grow to $52 billion by 2017, according to IDC. As the mobile advertising market matures, we believe advertisers will increasingly utilize performance based advertising formats available on mobile devices, as they did on desktop. Further, we believe 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 becoming a primary measurement unit/format for mobile advertising, As advertisers continue to shift their budgets to accommodate for the growth of mobile and online channels, we believe the market for call-driven advertising will grow even more.

Understanding calls is highly complex. Unlike clicks, impressions and other actions that are tracked and measured in digital format, calls take place offline and require unique technical capabilities and expertise to accurately measure and analyze. To realize the full benefit of call-based marketing, advertisers need technology that allows them to capture and analyze attributes of a call before, during and after the call is completed. This technology helps them properly measure return on investment (“ROI”) and optimize their marketing campaigns across media channels. For example, advertisers must 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 in real-time, to record calls, and to block unwanted or spam calls. For advertisers with call center operations, 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 return on investment. Successful marketing analytics for calls requires expertise from multiple disciplines, including digital advertising, communications infrastructure, voice and speech recognition expertise, and marketing software.

Our Competitive Strengths

Focus on calls. We were early to realize the value of calls and the importance that mobile devices would play in advertising. Over the past several years, we have shifted the focus of our company to address the large opportunity for mobile performance-based advertising focused on calls. As a pioneer in the category, we have developed a unique business model that delivers measurable return on investment to both large national advertisers and local small businesses. Our technology platform and call analytics technology and products are specifically designed to address the unique challenges associated with closing the loop between digital marketing and phone calls. Working closely with our customers, we have innovated in call-based technology, creating specific solutions to address common needs and wants among both SMBs and large advertisers. We believe we are unique with our call-focused approach to technology developments and marketing solutions, providing a competitive advantage as mobile advertising grows and advertising budgets shift towards performance-based formats.

Proprietary call analytics technology. Marchex Call Analytics technology provides data and insights to advertisers looking to measure the performance of their mobile, online, and offline ad campaigns. When consumers call a business or call center from their smartphones, our technology analyzes that conversation data in real time and provides detailed feedback to advertisers on the quality of these over-the-phone experiences. Our data also helps advertisers adjust and improve their marketing strategies in order to drive more sales over the phone. This intelligence allows advertisers to optimize their ad campaigns across media channels, keywords, and creative elements, which maximizes their return on investment. We also provide integrations with other marketing dashboards to give 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 always working to create products to help advertisers spend their budgets more efficiently, whether the channel is online, offline, or mobile and search-based. For example, our Call Analytics for Search technology tracks every consumer call from a mobile search campaign at the keyword level. It can determine in real time which of these calls converts into a sale. Access to these insights provides advertisers newfound visibility and measurement into their ad expenditures.

Transparent, performance-based model. We have developed a unique, pay-for-call business model that aligns our interests with those of our advertising customers and our publishing partners. We work closely with each customer to define a quality call for their business, and then only charge our customers, on a per call basis. As a result, we are able to deliver qualified leads that provide a measurable return on investment for our advertisers. We typically pay our publishing partners a percentage of the revenue we generate from advertisements on their properties. Through our Call Analytics, we have a deep understanding of which publishers, devices, ad formats, keywords and ad creatives drive call conversion for specific advertising verticals. This allows us to help optimize the placements of advertisements across our network to maximize the number of calls for our advertisers and revenue for our partners. As a result, advertisers utilize us to place ads on their behalf and our partners believe in us that we will only deliver ads on their properties to help generate revenue for them.

Scalable technology platform and business model. We have developed our technology platform to address the large advertisers, while also being able to support a large number of small local business advertisers. Our platform currently supports over 100,000 unique advertiser accounts, and in aggregate manages hundreds of millions of dollars in advertising spend across various digital channels. We leverage our relationships with Yellow Pages providers and vertical market service providers to efficiently re-sell our solutions to their small businesses customers, adding scale and data to our platform, which provides us with recurring revenues with minimal associated sales costs. We have deployed a direct sales model to acquire and service large advertisers and also have been successful at deepening our relationships with existing advertiser clients over time to capture a greater share of their advertising budgets.

Strategy

Our Strategy

To take advantage of the shift to performance-based models in marketing, key elements of our strategy include:

Building and Expanding Relationships with Advertising Agencies. Advertising agencies are influential in determining how large national advertisers allocate their advertising budgets. We believe building deep relationships with leading global advertising agencies and creating awareness within these agencies about the benefits of our offerings is an important step in attracting new large advertising customers. We plan to expand our agency relations efforts and hire personnel with strong existing relationships with advertising agencies.

Innovating on Our Mobile Performance Advertising. We plan to continue to expand our range of call-based advertising product capabilities by offering innovative performance-based products such as pay-for-call advertising, along with the supporting analytics including number provisioning, call tracking, call mining, keyword-level tracking and other products as part of our owned, end-to-end, call-based advertising solutions. We are also focused on growing our base of call distribution by bringing in new sources of the rapidly growing mobile advertising market as well as other online and offline sources of distribution.

Innovating on Our Products for Small Businesses. We plan to build and integrate new products into our marketing products for small businesses. This includes, (1) launching new performance-based small business solutions like pay-for-call advertising enhancements; (2) integrating more options for small businesses to acquire new customers over the phone, such as enhanced local ad-targeting capabilities that will enable us to consistently improve the matching of our small advertisers with our sources of call supply; (3) introducing products that enable small businesses to better cultivate relationships with existing customers; and (4) adding additional features and functionality to our web sites that connect consumers with small businesses and provide additional monetization capabilities. We believe these new products will increase our cross-sell opportunities, enable us to continue to grow our advertiser base, unlock more budget from our existing advertisers, enable us to attract new reseller partnerships and deliver better performance to our existing partners.

Supporting the Number of Advertisers Using Our Products and Services. We plan to continue to provide a consistently high level of service and support to our advertisers and we will continue to help them achieve their return on investment goals. We are focused on continuing to grow our advertiser base through our direct sales and marketing efforts, including strategic sales, inside sales, online acquisition initiatives and additional partnerships with large local advertiser reseller partners.

Developing New Markets including International Expansion. We intend to analyze opportunities and may seek to expand our technology-based products into new business areas or geographic markets 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 anticipate utilizing various strategies to enter new markets, including: developing strategic relationships; acquiring products that address a new category or opportunity; and creating joint venture relationships and internal initiatives where existing services can be extended internationally.

Pursuing Selective Acquisition Opportunities. We may pursue select acquisition opportunities and will apply rigorous 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 will focus on acquisition opportunities that represent a combination of the following characteristics:

- under-leveraged and under-commercialized assets;
- opportunities for business model, product or service innovation and evolution;
- critical mass of transactions volume, advertisers, traffic, revenue and profits;
- business defensibility;

- revenue growth and expanding margins and operating profitability or the characteristics to achieve significant scale and profitability; and
- an opportunity to enhance efficiencies and provide incremental growth opportunities for our operating businesses.

Our Distribution Network

We have built a broad distribution network for our pay-for-call and pay-per-click advertising services that includes hundreds of mobile sources, search engines and applications, directories, third party vertical and branded web sites, our proprietary web site traffic sources through our Archeo division, which are comprised of our owned and operated web sites, and offline sources.

Syndicated Distribution:

Through our call advertising services, our local leads, pay-per-click advertising services, and search marketing services, we distribute advertisements from our tens of thousands of advertisers, as well as from our reseller partners' advertisers, through hundreds of call-ready media and traffic sources, including mobile sources, search engines and directories, web sites and our proprietary web site traffic sources.

Our Syndicated Distribution partners include:

Selected Carriers	Selected Search Engines	Selected Call Sources and Vertical and Local Distribution Partners
AT&T	Google	Avantar
Verizon	Microsoft	CityGrid
Sprint (Boost Mobile)	Yahoo!	Google Mobile
Metro PCS		MapQuest
T-Mobile		MSN
TracFone		Whitepages, Inc.
		Yahoo!

Payment arrangements with our distribution partners are often subject to minimum payment amounts per phone call or click-through. Other payment structures that we may use to a lesser degree include:

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

Proprietary Web Site Traffic Sources:

We believe our proprietary web site traffic through our Archeo division is a source of local information online and is a source of click-throughs. It includes more than 200,000 web sites focused on helping users make informed decisions about products and services, including where to get local products and services.

The more than 200,000 owned and operated web sites in the network include thousands of U.S. ZIP code sites, including 98102.com and 90210.com, as well as other locally-focused sites such as Yellow.com, OpenList.com and geo-targeted sites. Traffic to our proprietary web sites is primarily monetized with pay-per-click listings that are relevant to the web sites, as well as other forms of advertising, including impression-based advertising.

Sales, Marketing & Business Development

Our sales department focuses on adding new advertisers to our business, while our business development and partnership department focuses on adding new reseller partnerships, selectively adding new distribution partnerships and servicing existing partnerships. Our marketing department 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 advertisers and advertising agencies through in-person presentations, direct marketing, telesales and attendance at industry events, among other methods. Our advertiser agreements include a combination of agency fees, pay-for-call and pay-per-click fees.
- ***Reseller Partnerships.*** We have a business development team that focuses primarily on securing partnerships with large local advertiser reseller partners under which we supply our private-label small business advertising platform and/or other services, including advertiser distribution in our proprietary web site traffic network or our distribution network. Our reseller partner agreements include a combination of revenue sharing, licensing revenue, pay-for-call and pay-per-click fees.
- ***Online Acquisition.*** We market to advertisers for our proprietary web site traffic network, pay-per-click advertising and contextual advertising through certain online advertising and direct marketing campaigns that lead advertisers to our self-serve online sign up processes. Self-serve advertisers generally pay us per-click fees.
- ***Referral Agreements.*** We have referral agreements with entities that promote our services to large numbers of potential advertisers. Our referral partner agreements are based on a combination of revenue sharing and performance-based fees.
- ***Archeo Domains Marketplace.*** We launched Domains Marketplace in September 2013, which includes more than 200,000 of our owned and operated web sites that are for available for sale and facilitates the buying and transacting of domain names.

We intend to continue our strategy of growing our advertiser base through sales and marketing programs while being as efficient as possible in terms of our marketing and advertising costs. We continually evaluate our marketing and advertising strategies to maximize 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, click-based, and cost-per-action advertising 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 advertisers, 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, IBM, Nuance and Veritas. We also utilize public domain software such as Apache, Linux, MySQL, PostgreSQL, Java, Scala and Tomcat.

Our technology platform is compatible with the systems used by our distribution partners, enabling us to deliver call, click-based, and cost-per-action advertising products and services through mobile, online and offline sources in rapid response to user queries made through such partners 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 advertiser and partner 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 advertisers or partners. 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 are configured for high availability and large volumes of call, mobile and Internet traffic and are located in leased third party facilities. 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 internet traffic increases, we will need to expand our network infrastructure. Inefficiencies in our network infrastructure to scale and adapt to higher call, mobile and internet 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.

Competition

Our call-driven offerings currently or potentially compete with a variety of companies in a highly competitive and fragmented industry. We compete with leading search engines such as Google and Microsoft, call analytics technology providers, mobile ad networks and digital advertising networks. We also face competition on the call supply side, where competing companies look to outbid, partner with or otherwise secure sources of call supply we utilize. Our Archeo Domains Marketplace competitors include Demand Media, Name Media and Oversee.net. Many of our potential competitors, as well as potential entrants into our target markets, have longer operating histories, larger customer or user bases, greater brand recognition and greater financial, marketing and other resources than we have. Many current and potential competitors can devote substantially greater resources than we can to marketing, web site and systems development. In addition, as the use of the mobile, Internet, and other online services increases, there will likely be larger, more well-established and well-financed entities that acquire companies relevant to our business strategy; and invest in or form joint ventures in categories or countries relevant to our business strategy; all of which could adversely impact our business. Any of these trends could increase competition, reduce the demand for any of our services and could have a material adverse effect on our business, operating results and financial condition.

We believe our strategy allows us to work with most, if not all, of the relevant companies in our industry, even those companies that may be perceived as our competitors. To some extent, we may compete with our business partners, as we do with all other types of advertising sales companies and agencies. We may also compete with traditional offline media such as television, radio and print and direct marketing companies, for a share of advertisers' total advertising budgets. Although our strategy enables us to work with most, if not all, of our competitors, there are no guarantees that all companies will view us as a potential partner.

We provide our services to and also may compete with: (1) mobile and online advertisers; (2) partners who provide a distribution network for mobile, online, and offline advertising; and (3) other intermediaries who may provide purchasing and/or sales opportunities, including advertising agencies, and other search engine marketing companies. Many of the companies that could fall into these categories are also our partners, including Google, Yahoo!, Citysearch, Microsoft and YP. We depend on maintaining and continually expanding our network of partners and advertisers to generate mobile and online transactions.

The mobile and online advertising and marketing services industry is highly competitive. In addition, we believe today's typical Internet and mobile advertiser is becoming more sophisticated in utilizing the different forms of Internet and mobile advertising, purchasing Internet and mobile advertising in a cost-effective manner, and measuring return on investment. The competition for this pool of advertising dollars has also put downward pressure on price points and mobile and online advertisers have demanded more effective means of reaching customers. We believe these factors have contributed to the growth in performance-based advertising relative to certain other forms of online advertising and marketing, and as a result this sector has attracted many competitors.

Due to the long-term growth trends in mobile and online advertising, these competitors, real and potential, range in size and focus. Our competitors may include such diverse participants as small referral companies, established advertising agencies, inventory resellers, search engines, and destination web sites. We are also affected by the competition among destination web sites that reach users or customers of search services. While thousands of smaller outlets are available to customers, several large media and search engine companies, such as Google, Yahoo!, Microsoft and IAC, dominate online user traffic. The online search industry continues to experience consolidation of major web sites and search engines, which has the effect of increasing the negotiating power of these parties in relation to smaller providers. The major destination web sites and distribution providers may have leverage to demand more favorable contract terms, such as pricing, renewal and termination provisions.

There are additional competitive factors relating to attracting and retaining users, including the quality and relevance of our search results, and the usefulness, accessibility, integration and personalization of the mobile and online services that we offer as well as the overall user experience on our web sites. The other features that we offer, which we believe attract advertisers are reach, effectiveness and creativity of marketing services, and tools and information to help track performance.

Finally, we operate in the relatively nascent market of call-based advertising. The adoption of these call-based products could take longer than we expect and could become more competitive as the category becomes more developed and visible.

Seasonality

We believe we will experience seasonality. Our quarterly results have fluctuated in the past and may fluctuate in the future due to seasonal fluctuations in levels of mobile and Internet usage and seasonal purchasing cycles of many advertisers. Our experience has shown that during the spring and summer months, mobile and Internet usage is lower 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 volume and reduced demand for calls. The extent to which usage and call volume may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage and call volume during these periods may adversely affect our growth rate and results. Additionally, the current business environment has generally resulted in advertisers and reseller partners reducing advertising and marketing services budgets or changing such budgets throughout the year, which we expect will impact our quarterly results of operations in addition to the typical seasonality seen in our industry. Our quarterly results will also be impacted by the timing of domain name sales, which were recognized as revenue starting in September 2013 with the launch of our Domains Marketplace.

Intellectual Property and Proprietary Rights

We seek to protect our intellectual property through existing laws and regulations and by contractual restrictions. We rely upon trademark, patent and copyright law, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to help us protect our intellectual property.

Our technologies involve a combination of proprietary rights, owned and developed by us, commercially available software and hardware elements that are licensed or purchased by us from various providers, including Cisco, Dell, Oracle, Intel, Microsoft, IBM and Veritas, and public domain software, such as Apache, Linux, MySQL, IBM Java and Tomcat. We continue to develop additional technologies to update, supplement and replace existing components of the platform. We intend to protect our proprietary rights through patent and additional intellectual property laws.

Our policy is to apply for patents or for other appropriate intellectual property protection when we develop valuable new or improved technology. We currently own the following pending patent applications and issued patents:

- U.S. Patent Number 7,668,950 entitled “Automatically Updating Performance-Based Online Advertising System and Method” was issued February 23, 2010.

- U.S. Patent Number 8,442,862 entitled “Method and System for Tracking Telephone Calls” was issued on May 14, 2013 and a corresponding divisional Patent Application Number 13/294,436 was filed November 11, 2011. The following divisional applications of Patent Application Number 13/294,436 were also filed: 14/045,536 titled “Method and System for Phone Number Cleaning” was filed November 3, 2013; 14/058,037 titled “Method and System for Collecting Data from Advertising Campaigns Including Phone Number Placement Techniques” was filed November 18, 2013; 14/058,080 titled “Method and System for Monitoring Campaign Referral Sources” was filed November 18, 2013, and 14/065,345 titled “Method and System for Tracking Telephone Calls” was filed November 28, 2013.
- U.S. Patent Number 6,822,663 entitled “Transform Rule Generator for Web-Based Markup Languages” was issued November 23, 2004.
- U.S. Patent Number 8,583,571 entitled “Facility for Reconciliation of Business Records Using Genetic Algorithms” was issued November 12, 2013.
- U.S. Patent Number 8,433,048 entitled “System and Method to Direct Telephone Calls to Advertisers” was issued April 30, 2013.
- U.S. Patent Application Number 12/829,373 entitled “System and Method for Calling Advertised Telephone Numbers on a Computing Device” was filed July 1, 2010.
- U.S Patent Number 8,259,915 entitled “System and Method to Analyze Calls to Advertised Telephone Numbers” was issued September 4, 2012 and its continuation Patent Number 8,788,344 was issued July 22, 2014.
- U.S. Patent Application Number 13/176,709 entitled “Method and System for Automatically Generating Advertising Creatives” was filed July 5, 2011.
- U.S. Patent Number 8,630,393 entitled “Systems and Methods for Blocking Telephone Calls” was issued January 14, 2014.
- U.S. Patent Number 7,212,615 entitled “Criteria Based Marketing For Telephone Directory Assistance” was issued May 1, 2007 and owned by Jingle Networks, which we acquired in 2011.
- U.S. Patent Number 7,702,084 entitled “Toll-Free Directory Assistance With Preferred Advertisement Listing” was issued April 20, 2010.
- U.S. Patent Number 7,961,861 entitled “Telephone Search Supported By Response Location Advertising” was issued June 14, 2011.
- U.S. Patent Application Number 11/290,148 entitled “Telephone Search Supported By Advertising Based On Past History Of Requests” was filed November 29, 2005.
- U.S. Patent Number 8,175,231 entitled “Toll-Free Directory Assistance With Automatic Selection Of An Advertisement From A Category” issued May 8, 2012.
- U.S. Patent Number 8,107,602 entitled “Directory Assistance With Data Processing Station” was issued January 31, 2012.
- U.S. Patent Application Number 13/677,248 entitled “System and Method to Customize a Connection Interface for Multimodal Connection to a Telephone Number” was filed November 14, 2012.
- U.S. Patent Number 8,634,520 entitled “Call Tracking System Utilizing an Automated Filtering Function” was issued January 21, 2014.
- U.S. Patent Number 8,671,020 entitled “Call Tracking System Utilizing a Pooling Algorithm” was issued March 11, 2014.
- U.S. Patent Number 8,687,782 entitled “Call Tracking System Utilizing a Sampling Algorithm” was issued April 1, 2014.

- U.S. Patent Application Number 13/865,966 entitled “Correlated Consumer Telephone Numbers and User Identifiers for Advertising Retargeting was filed April 18, 2013, claiming priority to U.S. Patent Application Number 61/801,893 entitled “Cross-Channel Targeting Using Historical Online and Call Data” filed March 15, 2013.
- U.S. Patent Application Number 13/842,769 entitled “System and Method for Analyzing and Classifying Calls without Transcription” was filed March 15, 2013.
- U.S. Patent Application Number 14/045,118 entitled “System and Method for Analyzing and Classifying Calls Without Transcription via Keyword Spotting” was filed October 3, 2013.
- U.S. Patent Application Number 14,550,089 entitled “Identifying Call Characteristics to Detect Fraudulent Call Activity and Take Corrective Action Without Using Recording, Transcription or Caller ID” was filed November 21, 2014.
- U.S. Patent Application Number 14,550,203 entitled “Analyzing Voice Characteristics to Detect Fraudulent Call Activity and Take Corrective Action Without Using Recording, Transcription or Caller ID” was filed November 21, 2014.

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. Furthermore, the performance-based mobile and search advertising industry has been the subject of numerous patents and patent applications, which in turn has resulted in litigation. The mobile advertising industry is also witnessing a significant number of patent related lawsuits. The outcome of this ongoing litigation or any future claims in this sector may adversely affect our business or financial prospects.

We have registered trademarks in the United States for Adhere by Marchex, Marchex, Marchex and Design, Marchex Adhere, Marchex Adhere Logo, Marchex Voice Services, Openlist, JingleConnect, Archeo, Archeo and Design, stylized A Logo, and Call DNA. We also own pending U.S. trademark applications Call Genome, Search Genome and Clean Call. In addition, we have trademark registrations for Marchex in the following jurisdictions: Australia, Benelux, Brazil, Canada, China, the European Union, Hong Kong, India, Japan, Republic of Korea, Russian Federation and Taiwan.

We do not know whether we will be able to successfully defend our proprietary rights since the validity, enforceability and scope of protection of proprietary rights in Internet-related industries are uncertain and still evolving.

Regulation

The manner in which existing laws and regulations should be applied to the Internet and call-based advertising services in general, and how they relate to our businesses in particular, is unclear. A host of federal and state laws covering user privacy, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, financial market regulation, quality of products and services, computer trespass, telemarketing, spyware, adware, child protection and intellectual property ownership and infringement are potentially applicable to our business practices and the content offered by our mobile and online distribution partners.

In addition, our business is impacted by laws in a constant state of flux, and new legislation is introduced on a regular basis. Any such new legislation could expose us to substantial liability, including significant expenses necessary to comply with such laws and regulations. Courts may apply each of these laws in unintended and unexpected ways. As a company that provides services over the Internet as well as call recording and call tracking services, we may be subject to an action brought under any of these or future laws.

A number of federal and state laws that could have an impact on our business practices and compliance costs have already been adopted:

- The Digital Millennium Copyright Act (DMCA) provides protection from copyright liability for online service providers that list or link to third party web sites. We currently qualify for the safe harbor under the DMCA; however, if it were determined that we did not meet the safe harbor requirements, we could be exposed to copyright infringement litigation, which could be costly and time-consuming.
- The Children's Online Privacy Protection Act (COPPA) restricts the online collection of personal information about children and the use of that information. The Federal Trade Commission (FTC) has the authority to impose fines and penalties upon web site operators and online service providers that do not comply with the law's requirements. We do not currently offer any web sites or online services "directed to children," nor do we knowingly collect personal information from children.
- The Protection of Children from Sexual Predators Act requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances.
- The Controlling the Assault of Non-Solicited Pornography and Marketing (CAN-SPAM) Act of 2003 establishes requirements for those who send commercial e-mails, spells out penalties for entities that transmit noncompliant commercial e-mail and/or whose products are advertised in noncompliant commercial e-mail and gives consumers the right to opt-out of receiving commercial e-mails. The majority of the states also have adopted similar statutes governing the transmission of commercial e-mail. The FTC and the states, as applicable, are authorized to enforce the CAN-SPAM Act and the state-specific statutes, respectively. CAN-SPAM gives the Department of Justice the authority to enforce its criminal sanctions. Other federal and state agencies can enforce the law against organizations under their jurisdiction, and companies that provide Internet access may sue violators as well.
- The Electronic Communications Privacy Act prevents private entities from disclosing Internet subscriber records and the contents of electronic communications, subject to certain exceptions.
- The Computer Fraud and Abuse Act and other federal and state laws protect computer users from unauthorized computer access/hacking, and other actions by third parties which may be viewed as a violation of privacy. Courts may apply each of these laws in unintended and unexpected ways. As a company that provides services over the Internet as well as call recording and call tracking services, we may be subject to an action brought under any of these or future laws.
- Among the types of legislation currently being considered at the federal and state levels are consumer laws regulating for the use of certain types of software applications or downloads and the use of "cookies." These proposed laws are intended to target specific types of software applications often referred to as "spyware," "invasiveware" or "adware," and may also cover certain applications currently used in the online advertising industry to serve and distribute advertisements. In addition, the FTC has sought inquiry regarding the implementation of a "do-not-track" requirement. Federal legislation is also expected to be introduced that would regulate "online behavioral advertising" practices. If passed, these laws would impose new obligations for companies that use such software applications or technologies.
- 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.
- The FCC has initiated a proceeding regarding the regulation of broadband services. The increasing growth of the broadband IP telephony market and popularity of broadband IP telephony products and services heighten the risk that the FCC or other legislative bodies will seek to regulate broadband IP telephony and the Internet. In addition, large, established telecommunication companies may devote substantial lobbying efforts to influence the regulation of the broadband IP telephony market, which may be contrary to our interests.
- 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 and pay-for-call services to our customers.
- Federal and state telemarketing laws including the Telephone Consumer Protection Act, the Telemarketing Sales Rule, the Telemarketing Consumer Fraud and Abuse Prevention Act and the rules and regulations promulgated thereunder.
- 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 its platforms and processes to permit wiretapping and other access for law enforcement personnel.
- Under various Orders of the Federal Communications Commission, including its Report and Order and Further Notice of Proposed Rulemaking in Docket Number WC 04-36, dated June 27, 2006, 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 in the countries where we are operating and these regulations could negatively affect the viability of our business.

In addition, there are a large number of federal and state legislative proposals related to our business. It is not possible to predict whether, or when, such legislation might be adopted, and certain proposals, if adopted, could result in a decrease in user registrations and revenue.

We comply with existing law and intend to fully comply with all future laws and regulations that may govern our industry. We have dedicated internal resources and hired outside professionals who regularly establish, review and maintain policies and procedures to reduce the risk of noncompliance. Nevertheless, these laws may impose significant additional costs on our business or subject us to additional liability, if we failed to fully comply, even if such failure was unintentional.

The acquisition of Internet domains generally is governed by Internet regulatory bodies, predominantly the Internet Corporation for Assigned Names and Numbers (ICANN). The regulation of Internet domains in the United States and in foreign countries is subject to change. ICANN and other regulatory bodies could establish additional requirements for previously owned Internet domains or modify the requirements for Internet domains. Furthermore, ICANN has and will likely continue to make changes to the scope of domain products available to the marketplace that could have an impact on the competition for premium domain sales.

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. Our continued international expansion also subjects us to increased foreign currency exchange rate risks and will require additional management attention and resources. We cannot assure you that we will be successful in our international expansion.

We post a privacy policy which describes our practices concerning the use and disclosure of any user data collected or submitted via our web sites. Any failure by us to comply with our posted privacy policies, Federal Trade Commission requirements or other federal, state or international privacy or direct marketing laws and regulations could result in governmental or regulatory investigations that could potentially harm our businesses, operational results and overall financial condition.

Employees

As of December 31, 2014, we employed a total of 367 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 (http://blog.marchex.com/)

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.

Risks Relating to Our Company

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 $190.2 million as of December 31, 2014. Our net expenses may increase based on the initiatives we undertake which for instance, may include increasing our sales and marketing activities, hiring additional personnel, incurring additional costs as a result of being a public company, acquiring additional businesses and making additional equity grants to our employees.

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

A relatively small number of distribution partners currently deliver a significant percentage of calls and traffic to our advertisers. Our largest distribution partner was paid less than 16% of total revenues for the year ended December 31, 2014. Our existing agreements with many of our other larger distribution partners permit either company to terminate without penalty on short notice and are primarily structured on a variable-payment basis, under which we make payments based on a specified percentage of revenue or based on the number of paid phone calls or click-throughs. We intend to continue devoting resources in support of our larger distribution partners, but there are no guarantees that these relationships will remain in place over the short-or long-term. In addition, we cannot be assured that any of these distribution partners will continue to generate current levels of revenue for us or that we will be able to maintain the applicable variable payment terms at their current levels. A loss of any of these distribution partners or a decrease in revenue due to lower calls and traffic or less favorable variable payment terms from any one of these distribution relationships could have a material adverse effect on our business, financial condition and results of operations.

Companies distributing advertising through mobile or online Internet have experienced, and will likely continue to experience, consolidation. This consolidation has reduced the number of partners that control the mobile and online advertising outlets with the most user calls and traffic. According to the comScore qSearch analysis of the U.S. desktop search marketplace for December 2014, Yahoo! and Microsoft accounted for 11.8% and 19.7%, respectively, of the core search market in the United States and Google accounted for 65.4%. As a result, the larger distribution partners have greater control over determining the market terms of distribution, including placement of call and click-based advertisements and cost of placement. In addition, many participants in the performance-based advertising and search marketing industries control significant portions of mobile and online traffic that they deliver to advertisers. We do not believe, for example, that Yahoo! and Google are as reliant as we are on a third party distribution network to deliver their services. This gives these companies a significant advantage over us in delivering their services, and with a lesser degree of risk.

We rely on certain advertiser reseller partners and agencies, including YP, hibu, Inc., The Cobalt Group, Yodle, Resolution Media, and Yellow Media, Inc. for the purchase of various advertising and marketing services, as well as to provide us with a large number of advertisers. A loss of certain advertiser reseller partners and agencies or a decrease in revenue from these reseller partners and agencies could adversely affect our business. Such advertisers are subject to varying terms and conditions, which may result in claims or credit risks to us.

We benefit from the established relationships and national sales teams that certain of our reseller partners, who are leading reseller partners of advertisers and advertising agencies, have in place throughout the U.S. and international markets. These advertiser reseller partners and agencies refer or bring advertisers to us for the purchase of various advertising products and services. We derive a sizeable portion of our total revenue through these advertiser reseller partners and agencies. Additionally, these advertiser reseller partners and agencies may decide to operate the advertising services we perform internally with their own teams and technology. A loss of certain advertiser reseller partners and agencies or a decrease in revenue from these clients could adversely affect our business.

Through our contract with Yellowpages.com LLC ("YP"), we generate revenues from our local leads platform. We also have a separate pay-for-call arrangement with YP. Both arrangements expire in June 2015. YP is our largest reseller partner and was responsible for 24% of our total revenues for the year ended December 31, 2014. We also have a separate distribution partner agreement with YP. There can be no assurance that our business with them in the future will continue at or near current revenue and contribution levels, that we will be able to renew and extend the contracts set to expire in June 2015, and if renewed, the contracts may be on less favorable terms to us, any of which could have a material adverse effect on our future operating results.

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

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

We received approximately 61% and 62% of our revenue from our five largest customers for the years ended December 31, 2013 and 2014, respectively, and the loss of one or more of these customers could adversely impact our results of operations and financial condition.

Our five largest customers accounted for approximately 61% and 62% of our total revenues for the years ended December 31, 2013 and 2014, respectively. YP and Allstate were our largest customers and are responsible for 24% and 27% of our total revenues for the year ended December 31, 2014, respectively. Substantially all of the 2014 revenue from Allstate was generated during the nine months ended September 30, 2014.

Through our primary contract with YP, we generate revenues from our local leads platform. We also have a separate pay-for-call services arrangement with YP. Both arrangements expire in June 2015. We also have a separate distribution partner agreement with YP. There can be no assurance that our business with them in the future will continue at or near current revenue and contribution levels, that we will be able to renew and extend the contracts set to expire in June 2015, and if renewed, the contracts may be on less favorable terms to us, any of which could have a material adverse effect on our future operating results.

In September 2014, Allstate ceased purchases of the pay-for-call services and reduced their planned pay-for-call advertising spend for the fourth quarter of 2014 to zero. We do not expect Allstate will purchase additional pay-for-call services in the foreseeable future, which is anticipated to have a material adverse effect on our future operating results, and expect the call analytics service relationship, which provides a small, non-material financial contribution to our future operating results, to cease in the first quarter of 2015.

Many of our largest customers are not subject to long term contracts with us and are generally able to reduce advertising spending at any time and for any reason. In some cases, we engage with our customers through advertising agencies, who act on behalf of the customer. Advertising agencies may place insertion orders with us for particular advertising campaigns for a set period of time and are not obligated to commit beyond the campaign governed by a particular insertion order and may also cancel the campaign prior to completion. Advertising agencies also have relationships with many different providers, each of whom may be running portions of the advertising campaign. A significant reduction in advertising spending by our largest customers, or the loss of one or more of these customers, if not replaced by new customers or an increase in business from existing customers, would have a material adverse effect on our future operating results.

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

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

If some of our customers experience financial distress or suffer disruptions in their business, their weakened financial position could negatively affect our own financial position and results.

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

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

Many of our advertisement distribution processes are automated. In some cases, advertisers or reseller partners use our online tools and account management systems to create and submit advertiser listings and in other cases we create and submit advertising listings on behalf of our advertisers or reseller partners. These advertiser listings are submitted in a bulk data feed or through the distribution partners' user interface. Although we monitor our distribution partners on an ongoing basis primarily for traffic quality, these partners control the distribution of the advertiser listings provided in the data feed or user interface submissions.

We have a large number of distribution partners who display our advertiser listings on their networks. Our advertiser listings are delivered to our distribution partners in an automated fashion through an XML data feed or data dump or through the distribution partners' user interface. Our distribution partners are contractually required to use the listings created by our advertiser customers in accordance with applicable laws and regulations and in conformity with the publication restrictions in our agreements, which are intended to promote the quality and validity of the traffic provided to our advertisers. Nonetheless, we do not operationally control or manage these distribution partners and any breach of these agreements on the part of any distribution partner or its affiliates

could result in liability for our business. These agreements include indemnification obligations on the part of our distribution partners, but there is no guarantee that we would be able to collect against offending distribution partners or their affiliates in the event of a claim under these indemnification provisions. Alternatively, we may incur substantial costs as part of our indemnification obligations to distribution partners for liability they may incur as a result of displaying content we have provided them.

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

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

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

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

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

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

The mobile advertising market may develop more slowly than expected, which could harm our business.

If the market for mobile marketing and advertising 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 willingness of our potential advertisers to outsource their mobile advertising and marketing needs, and our ability to sell our mobile advertising services to reseller partners and agencies. The mobile advertising and marketing market is relatively new and rapidly evolving. Businesses, including current and potential advertisers, may find mobile advertising or marketing to be less effective than traditional advertising media or marketing methods or other technologies for promoting their products and services. As a result, the future demand and market acceptance for mobile marketing and advertising is uncertain. Many of our current or potential advertisers have little or no experience using mobile communications for advertising or marketing purposes and have allocated only a limited portion of their advertising or marketing budgets to mobile communications advertising or marketing, and there is no certainty that they will allocate more funds in the future, if any. Funds to these types of campaigns may fluctuate greatly as different agencies and advertisers test and refine their overall marketing strategies to include mobile advertising and analytics tools. The adoption rate and budget commitments may vary from period to period as agencies and advertisers determine the appropriate mix of media and lead sources in short term and longer term campaigns.

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

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

We depend on being able to secure enough phone numbers to support our advertisers 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 advertisers, such as our pay-for-call, call tracking and call analytics services. Our services that utilize phone numbers are designed to

enable advertisers and other users of our services to utilize mobile, online and offline advertising and to help measure the effectiveness of mobile, online and offline advertising campaigns. 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, to the extent we offer call recording and pay-for-call services, 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 to us in the event of any industry consolidations.

Our automated voice and mobile advertising-based technologies are heavily reliant on vendors.

Certain voice and mobile advertising-based products are heavily reliant on vendors. The free directory product that we provide relies on technology provided by third party vendors that include voice recognition software and business, government and residence data listings. We cannot guarantee that the technology, data and services provided by our third party vendors will be of sufficient quality to meet the demands of our customers and partners. Further, we cannot guarantee that the technologies, data and services will be available to us in the future on acceptable terms, if at all. Any perception by our customers or partners that our voice and mobile advertising-based products are incomplete or not of sufficient quality could lead to a loss in confidence by our customers or partners, which in turn could lead to a decline in revenues. If we are unable to continue maintaining, advancing and improving our voice and mobile advertising-based products, our operating results may be adversely affected.

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 or other intellectual property infringement claims, including claims of trademark infringement in connection with our acquisition of previously-owned Internet domain names and claims of copyright infringement with respect to certain of our proprietary web sites that would be costly to defend and could limit our ability to use certain critical technologies.

The expansion of our call advertising business increases the potential intellectual property infringement claims we may be subject to, particularly in light of the large number of patents which have been issued (or are pending) in the telecommunications field over the last several decades, both in the U.S. and internationally. Jingle, which we acquired in 2011, was subject to patent infringement claims, which were unsuccessful at trial. We resolved this matter and obtained a license to the patents at issue.

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.

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

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

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

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

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

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

Our expanding international operations subject us to additional risks and uncertainties and we may not be successful with our strategy to continue to expand such operations.

One potential area of growth for us is in international markets. We have initiated operations, through our subsidiaries, in other countries. Currently we have operations in Canada, Ireland and the United Kingdom and digital services in Australia and New Zealand. We are contemplating exploring customer opportunities in France, Germany, Italy, Mexico and Spain. Our international expansion and the integration of international operations present 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. Our continued international expansion also subjects us to increased foreign currency exchange rate risks and will require additional management attention and resources. We cannot assure you that we will be successful in our international expansion. 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, difficulties in managing operations due to language barriers, distance, staffing and cultural differences, application of foreign laws and regulations to us, tariffs and other trade barriers, fluctuations in currency exchange rates, establishing management systems and infrastructures, reduced protection for intellectual property rights in some countries, changes in foreign political and economic conditions, and potentially adverse tax consequences. Our failure to address these risks adequately could materially and adversely affect our business, revenue, results of operations and financial condition.

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

We are heavily dependent upon the continued services of executive founders, and the other members of our senior management team. Each member of our senior management team is an at-will employee and may voluntarily terminate his employment with us at any time with minimal notice. Following any termination of employment, each of these employees would only be subject to a twelve-month non-competition and non-solicitation obligation with respect to our customers and employees under our standard confidentiality agreement. Further, as of December 31, 2014, Russell C. Horowitz, Ethan A. Caldwell and Peter Christothoulou, our executive founders, together controlled 79% of the combined voting power of our outstanding capital stock. Their collective voting control is not tied to their continued employment with Marchex. The loss of the services of any member of our senior management, including our executive founders, for any reason, or any conflict among our executive founders, could harm our current and future operations and prospects.

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

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

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

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

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

It may be difficult for us to retain or attract qualified officers and directors, which could adversely affect our business and our ability to maintain the listing of our Class B common stock on the NASDAQ Global 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 (the "SEC") and the NASDAQ Stock Market heighten the requirements for board or committee membership, particularly with respect to an individual's independence from the corporation and level of experience in finance and accounting matters. We may have difficulty attracting and retaining directors with the requisite qualifications. If we are unable to attract and retain qualified officers and directors, our business and our ability to maintain the listing of our shares of Class B common stock on the NASDAQ Global Select Market could be adversely affected.

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

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

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

Current accounting rules require that goodwill and other intangible assets with indefinite useful lives be tested for impairment at least annually. These rules also require that intangible assets with definite useful lives be

amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events and circumstances considered in determining whether the carrying value of goodwill may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; 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 our common stock and market capitalization. Significant and sustained declines in the stock price and market capitalization, a significant decline in expected future cash flows or a significant adverse change in the business climate, among other factors, could result in the need to perform an impairment analysis in future periods. We cannot accurately predict the amount and timing of any future impairment of goodwill or other intangible assets. Should the value of goodwill or other intangible assets become impaired, we would record an impairment charge, which could have an adverse effect on its financial condition and results of operations.

The current business environment is subject to evolving market conditions and requires significant management judgment to interpret the potential impact to our assumptions. At various points in time during the period January 1, 2015 to March 6, 2015, our stock price approached the then book value per share. To the extent that changes in the current business environment impact our ability to achieve levels of forecasted operating results and cash flows, if the stock price were to trade below book value per share for an extended period of time and/or should other events occur indicating the remaining carrying value of our assets might be impaired, we would test goodwill and intangible assets for impairment and may recognize an impairment loss to the extent that the carrying amount exceeds such asset's fair value.

We recorded a substantial non-cash impairment charge for goodwill and intangible assets during the fourth quarter of 2008 as a result of the impact of the adverse economic environment including the deterioration in the equity and credit markets. During the fourth quarter of 2012, we recorded a non-cash impairment charge for goodwill of $15.8 million within the Archeo reporting unit as a result of lower projected revenue growth rates and profitability levels compared to historical results and other market-based factors. In the third quarter of 2014, we performed impairment testing in accordance with ASC 350 and in light of the macroeconomic and competitive environments, customer changes, lower projected revenue and profitability and a significant decrease in our market capitalization at the end of September 2014. We also performed a review on certain of our intangible assets under ASC 360. As a result of this testing, we concluded that there was no impairment of goodwill and intangible assets in the third quarter of 2014. The Company performed its annual impairment testing as of November 30, 2014 and determined that there was no impairment of goodwill and intangible assets during the remainder of 2014. We may be required to record a future charge to earnings in our financial statements during the period in which any additional impairment of our goodwill or amortizable intangible assets is determined. Any impairment charges or changes to the estimated amortization periods could have a material adverse effect on our financial results.

We may be required to increase or decrease the valuation allowance against our deferred tax assets.

Factors in our ability to realize a tax benefit from our deferred tax assets include tax attributes and operating results of acquired businesses, the nature, extent and periods that temporary differences are expected to reverse and our expectations about future operating results. We regularly review our deferred tax assets to assess whether or not it is more likely than not that the deferred tax assets will be realized, and if necessary, increase or decrease the valuation allowance for portions of such assets to reduce the carrying value. At the end of the fourth quarter of 2012, we recognized a partial valuation allowance of $16.4 million on our federal deferred tax assets which reduced our net deferred assets to $28.5 million. At the end of the second quarter of 2013, our gross deferred tax assets increased by approximately $651,000 due primarily to the 2012 and 2013 research and development credit which was reinstated as part the 2012 American Taxpayer Relief Act signed into law in January 2013. This increase was offset by a corresponding increase in our valuation allowance. We increased the valuation

allowance by $22.3 million to record a full valuation allowance against our deferred tax assets as of September 30, 2014 resulting in a corresponding income tax expense of $22.3 million for the third quarter of 2014. As of December 31, 2014, our deferred tax assets were $44.8 million and we have provided a full valuation allowance of $44.8 million as we believe it is not more likely than not that these assets will be realized.

We may not be able to realize the intended and anticipated benefits from our acquisitions of Internet domain names in part due to our increasing business focus on call advertising products, which could affect the value of these acquisitions to our business and our ability to meet our financial obligations and targets.

We may not be able to realize the intended and anticipated benefits from our acquisitions of Internet domain names in part due to our increasing focus on call advertising products. These intended and anticipated benefits include increasing our cash flow from operations, broadening our distribution offerings and delivering services that strengthen our advertiser relationships. In addition, our ability to maintain and grow revenues will also depend on maintaining and growing the number of domain name sales and the average revenue per domain. If we are unable to attract prospective buyers to purchase domains and at the price we value the domains, our revenue and results of operations could be materially and adversely affected.

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

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

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

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

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

Certain of our acquisitions involved the acquisition of a large number of previously-owned Internet domain names. Furthermore, we have separately acquired and may acquire in the future additional previously-owned Internet domain names. In some cases, these acquired names may have trademark significance that is not readily apparent to us or is not identified by us in the bulk purchasing process. As a result we may face demands by third party trademark owners asserting infringement or dilution of their rights and seeking transfer of acquired Internet domain names under the Uniform Domain Name Dispute Resolution Policy administered by ICANN or actions

under the U.S. Anti-Cybersquatting Consumer Protection Act. Additionally, we display pay-for-call or pay-per-click listings on third party domain names and third party web sites that are part of our distribution network, which also could subject us to a wide variety of civil claims including intellectual property ownership and infringement.

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

With the suspension of our previously announced spin off transaction, we may continue to explore various strategic alternatives for our Archeo assets.

In November 2012, we announced our intention to pursue the spin-off of our Archeo assets and in September 2013 following a strategic review, we announced the suspension of the planned spin-off of the Archeo assets in its previously announced form. At such time we announced our intention to explore various strategic alternatives for the Archeo assets. Archeo continues to operate as an independent division of the Company. We cannot predict whether Archeo will continue as such within our organization or whether we will pursue another strategic alternative for the Archeo assets going forward. If we do pursue another strategic alternative for the Archeo assets, there can be no assurances such efforts will be successful.

Risks Relating to Our Business and Our Industry

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

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

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

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

We currently or potentially compete with leading search engines such as Google and Microsoft, digital advertising networks, mobile ad networks and call analytics technology providers. We also face competition on the call supply side, where competing companies look to outbid, partner with or otherwise secure sources of call supply we utilize. Our Archeo Domains Marketplace competitors include Demand Media, Name Media and Oversee.net. Many of these actual or perceived competitors also currently or may in the future have business relationships with us, particularly in distribution. However, such companies may terminate their relationships with us. Furthermore, our competitors may be able to secure agreements with us on more favorable terms, which could reduce the usage of our services, increase the amount payable to our distribution partners, reduce total revenue and thereby have a material adverse effect on our business, operating results and financial condition. We expect competition to intensify in the future because current and new competitors can enter our market with little difficulty. The barriers to entering our market are relatively low. Further, if the consolidation trend continues among the larger media and search engine companies with greater brand recognition, the share of the market remaining for smaller search marketing services providers could decrease, even though the number of smaller providers could continue to increase. These factors could adversely affect our competitive position.

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

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

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

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

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

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

The market for our products and services is characterized by rapid change in business models and technological infrastructure, and we will need to constantly adapt to changing markets and technologies to

provide new and competitive products and services. If we are unable to ensure that our users, advertisers, reseller partners, and distribution partners have a high-quality experience with our products and services, then they may become dissatisfied and move to competitors' products and services. Accordingly, our future success will depend, in part, upon our ability to develop and offer competitive products and services for both our target market and for applications in new markets. We may not, however, be able to successfully do so, and our competitors may develop innovations that render our products and services obsolete or uncompetitive.

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

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

- fire;
- floods;
- network failure;
- hardware failure;
- software failure;
- power loss;
- telecommunications failures;
- break-ins;
- terrorism, war or sabotage;
- computer viruses;
- denial of service attacks;
- penetration of our network by unauthorized computer users and "hackers" and other similar events;
- natural 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, he or she could destroy or misappropriate valuable information, including sensitive customer information, or disrupt our operations. We have deployed firewall hardware intended to thwart hacker attacks. Although we maintain property insurance and business interruption insurance, our insurance may not be adequate to compensate us for all losses that may occur as a result of a catastrophic system failure or other loss, and our insurers may not be able or may decline to do so for a variety of reasons. If we fail to address these issues in a timely manner, we may lose the confidence of our advertisers, reseller partners, and distribution partners, our revenue may decline and our business could suffer. In addition, as we expand our service offerings and enter into new business areas, we may be required to significantly modify and expand our software and technology platform. If we fail to accomplish these tasks in a timely manner, our business and reputation will likely suffer. Furthermore, some of these events could disrupt the economy and/or our customers' business activities and in turn materially affect our operating results.

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

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

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

We store and transmit data and information about our advertisers, reseller partners, distribution partners and their respective users. We deploy security measures to protect this data and information, as do third parties we utilize to assist in data and information storage. Our security measures and those of the third parties we partner with to assist in data and information storage may suffer breaches. Security breaches of our data storage systems or our third party colocation and technology providers we utilize to store data and information relating to our advertisers, reseller partners, distribution partners and their respective users could expose us to significant potential liability. In addition, security breaches, actual or perceived, could result in legal liability, government fines, and the loss of advertisers, reseller partners and distribution partners that could potentially have an adverse effect on our business.

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

Our success and ability to compete effectively are substantially dependent upon our internally developed and acquired technology and data resources, which we protect through a combination of copyright, trade secret, and patent and trademark law. To date, we have had issued or have applications pending for the following patents:

- U.S. Patent Number 7,668,950 entitled “Automatically Updating Performance-Based Online Advertising System and Method” was issued February 23, 2010.
- U.S. Patent Number 8,442,862 entitled “Method and System for Tracking Telephone Calls” was issued on May 14, 2013 and a corresponding divisional Patent Application Number 13/294,436 was filed November 11, 2011. The following divisional applications of Patent Application Number 13/294,436 were also filed: 14/045,536 titled “Method and System for Phone Number Cleaning” was filed

November 3, 2013; 14/058,037 titled “Method and System for Collecting Data from Advertising Campaigns Including Phone Number Placement Techniques” was filed November 18, 2013; 14/058,080 titled “Method and System for Monitoring Campaign Referral Sources” was filed November 18, 2013, and 14/065,345 titled “Method and System for Tracking Telephone Calls” was filed November 28, 2013.

- U.S. Patent Number 6,822,663 entitled “Transform Rule Generator for Web-Based Markup Languages” was issued November 23, 2004.
- U.S. Patent Number 8,583,571 entitled “Facility for Reconciliation of Business Records Using Genetic Algorithms” was issued November 12, 2013.
- U.S. Patent Number 8,433,048 entitled “System and Method to Direct Telephone Calls to Advertisers” was issued April 30, 2013.
- U.S. Patent Application Number 12/829,373 entitled “System and Method for Calling Advertised Telephone Numbers on a Computing Device” was filed July 1, 2010.
- U.S. Patent Number 8,259,915 entitled “System and Method to Analyze Calls to Advertised Telephone Numbers” was issued September 4, 2012 and its continuation Patent Number 8,788,344was issued July 22, 2014.
- U.S. Patent Application Number 13/176,709 entitled “Method and System for Automatically Generating Advertising Creatives” was filed July 5, 2011.
- U.S. Patent Number 8,630,393 entitled “Systems and Methods for Blocking Telephone Calls” was issued January 14, 2014.
- U.S. Patent Number 7,212,615 entitled “Criteria Based Marketing For Telephone Directory Assistance” was issued May 1, 2007 and owned by Jingle Networks, which we acquired in 2011.
- U.S. Patent Number 7,702,084 entitled “Toll-Free Directory Assistance With Preferred Advertisement Listing” was issued April 20, 2010.
- U.S. Patent Number 7,961,861 entitled “Telephone Search Supported By Response Location Advertising” was issued June 14, 2011.
- U.S. Patent Application Number 11/290,148 entitled “Telephone Search Supported By Advertising Based On Past History Of Requests” was filed November 29, 2005.
- U.S. Patent Number 8,175,231 entitled “Toll-Free Directory Assistance With Automatic Selection Of An Advertisement From A Category” issued May 8, 2012.
- U.S. Patent Number 8,107,602 entitled “Directory Assistance With Data Processing Station” was issued January 31, 2012.
- U.S. Patent Application Number 13/677,248 entitled “System and Method to Customize a Connection Interface for Multimodal Connection to a Telephone Number” was filed November 14, 2012.
- U.S. Patent Number 8,634,520 entitled “Call Tracking System Utilizing an Automated Filtering Function” was issued January 21, 2014.
- U.S. Patent Number 8,671,020 entitled “Call Tracking System Utilizing a Pooling Algorithm” was issued March 11, 2014.
- U.S. Patent Number 8,687,782 entitled “Call Tracking System Utilizing a Sampling Algorithm” was issued April 1, 2014.
- U.S. Patent Application Number 13/865,966 entitled “Correlated Consumer Telephone Numbers and User Identifiers for Advertising Retargeting was filed April 18, 2013, claiming priority to U.S. Patent Application Number 61/801,893 entitled “Cross-Channel Targeting Using Historical Online and Call Data” filed March 15, 2013.

- U.S. Patent Application Number 13/842,769 entitled “System and Method for Analyzing and Classifying Calls without Transcription” was filed March 15, 2013.
- U.S. Patent Application Number 14/045,118 entitled “System and Method for Analyzing and Classifying Calls Without Transcription via Keyword Spotting” was filed October 3, 2013.
- U.S. Patent Application Number 14,550,089 entitled “Identifying Call Characteristics to Detect Fraudulent Call Activity and Take Corrective Action Without Using Recording, Transcription or Caller ID was filed November 21, 2014.
- U.S. Patent Application Number 14,550,203 entitled “Analyzing Voice Characteristics to Detect Fraudulent Call Activity and Take Corrective Action Without Using Recording, Transcription or Caller ID was filed November 21, 2014.

In the future, additional patents may be filed with respect to internally developed or acquired technologies. Our industry is highly competitive and many individuals and companies have sought to patent processes in the industry. We may decide not to protect certain intellectual properties or business methods which may later turn out to be significant to us. In addition, the patent process takes several years and involves considerable expense. Further, patent applications and patent positions in our industry are highly uncertain and involve complex legal and factual questions due in part to the number of competing technologies. As a result, we may not be able to successfully prosecute these patents, in whole or in part, or any additional patent filings that we may make in the future. We also depend on our trademarks, trade names and domain names. We may not be able to adequately protect our technology and data resources. In addition, intellectual property laws vary from country to country, and it may be more difficult to protect our intellectual property in some foreign jurisdictions in which we may plan to enter. If we fail to obtain and maintain patent or other intellectual property protection for our technology, our competitors could market competing products and services utilizing our technology.

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

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

We may initiate patent litigation against third parties to protect or enforce our patent rights, and we may be 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.

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

Our quarterly results have fluctuated in the past and may fluctuate in the future due to seasonal fluctuations in the level of mobile and Internet usage and seasonal purchasing cycles of many advertisers. Our experience has shown that during the spring and summer months, mobile and Internet usage is generally lower 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 volume and reduced demand for calls from our mobile call advertising customers. The extent to which usage and call volume may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage and call volume during these periods may adversely affect our growth rate and results and in turn the market price of our securities. In the first quarter of the calendar year, this trend generally reverses with increased mobile and Internet usage and often new budgets at the beginning of the year for many of our customers with fiscal years ending December 31. The seasonal purchasing cycles of some customers in certain industries may also be higher in the first half versus the latter half of the calendar year. Additionally, the current business environment has resulted in many advertisers and reseller partners reducing advertising and marketing services budgets or changing such budgets throughout the year, which we expect may impact our quarterly results of operations in addition to typical seasonality seen in our industry. Our quarterly results may also be impacted by the timing of domain name sales, which were recognized as revenue starting in September 2013 with the launch of our Domains Marketplace.

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

Our operating results will be subject to fluctuations based on general economic conditions, in particular those conditions that impact advertiser-consumer transactions. Deterioration in economic conditions could cause decreases in or delays in advertising 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.

We depend on the growth of mobile technologies, the Internet and the Internet infrastructure for our future growth and any decrease in growth or anticipated growth in mobile 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 advertisers, reseller partners, and distribution partners to alleviate potential overloading and delayed response times;
- a decision by advertisers and consumers to spend more of their marketing dollars on offline programs;
- increased governmental regulation and taxation; and
- actual or perceived lack of security or privacy protection.

In particular, concerns over the security of online transactions and the privacy of users, including the risk of identity theft, may inhibit the growth of Internet 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.

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

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

Regulation of E-Commerce, Online Tracking, Online Data Collection, and Use of the Internet may adversely affect our business and operating results.

Mobile and online search, e-commerce and related businesses face uncertainty related to new or future government regulation at the federal, state, and international levels regarding e-commerce, online tracking, online data collection, and use of the Internet. Due to the rapid growth and widespread use of the Internet, state and federal legislatures (both domestically and abroad) have enacted and may continue to enact various laws and regulations relating to the Internet. Individual states may also enact consumer protection laws that are more restrictive than the ones that already exist.

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

- The Digital Millennium Copyright Act (DMCA) provides protection from copyright liability for online service providers that list or link to third party web sites. We currently qualify for the safe harbor under the DMCA; however, if it were determined that we did not meet the safe harbor requirements, we could be exposed to copyright infringement litigation, which could be costly and time-consuming.
- The Children's Online Privacy Protection Act (COPPA) restricts the online collection of personal information about children and the use of that information. The Federal Trade Commission (FTC) has the authority to impose fines and penalties upon web site operators and online service providers that do not comply with the law. We do not currently offer any web sites or online services "directed to children," nor do we knowingly collect personal information from children.
- The Protection of Children from Sexual Predators Act requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances.
- The Controlling the Assault of Non-Solicited Pornography and Marketing (CAN SPAM) Act of 2003 establishes requirements for those who send commercial e-mails, spells out penalties for entities that transmit noncompliant commercial e-mail and/or whose products are advertised in noncompliant commercial e-mail and gives consumers the right to opt-out of receiving commercial e-mails. The majority of the states also have adopted similar statutes governing the transmission of commercial e-mail. The FTC and the states, as applicable, are authorized to enforce the CAN-SPAM Act and the state-specific statutes, respectively. CAN-SPAM gives the Department of Justice the authority to enforce its criminal sanctions. Other federal and state agencies can enforce the law against organizations under their jurisdiction, and companies that provide Internet access may sue violators as well.
- The Electronic Communications Privacy Act prevents private entities from disclosing Internet subscriber records and the contents of electronic communications, subject to certain exceptions.

- The Computer Fraud and Abuse Act and other federal and state laws protect computer users from unauthorized computer access/hacking, and other actions by third parties which may be viewed as a violation of privacy. Courts may apply each of these laws in unintended and unexpected ways. As a company that provides services over the Internet as well as call recording and call tracking services, we may be subject to an action brought under any of these or future laws.
- Among the types of legislation currently being considered at the federal and state levels are consumer laws regulating for the use of certain types of software applications or downloads and the use of "cookies." These proposed laws are intended to target specific types of software applications often referred to as "spyware," "invasiveware" or "adware," and may also cover certain applications currently used in the online advertising industry to serve and distribute advertisements. In addition, the FTC has sought inquiry regarding the implementation of a "do-not-track" requirement. Federal legislation is also expected to be introduced that would regulate "online behavioral advertising" practices. If passed, these laws would impose new obligations for companies that use such software applications or technologies. At least one state already has enacted a law, which went into effect in January 2014, regarding online tracking.

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

We may also be subject to costs and liabilities with respect to privacy issues. Several 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 to implement and maintain reasonable security procedures and practices to protect sensitive personal information and to provide notice to consumers in the event of a security breach. Further, it is anticipated that additional federal and state privacy-related legislation will be enacted. Such legislation could negatively affect our business.

In addition, foreign governments may pass 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, and Data Protection Directives (and similar legislation in other countries where we may have operations). 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.

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

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

Telecommunications laws and regulations (and interpretations thereof) are evolving in response to rapid changes in the telecommunications industry. If our carrier partners 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 pay-for-call 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.
- The FCC has initiated a proceeding regarding the regulation of broadband services. The increasing growth of the broadband IP telephony market and popularity of broadband IP telephony products and services heighten the risk that the FCC or other legislative bodies will seek to regulate broadband IP telephony and the Internet. In addition, large, established telecommunication companies may devote substantial lobbying efforts to influence the regulation of the broadband IP telephony market, which may be contrary to our interests.
- 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 and pay-for-call services to our customers.
- Federal and state telemarketing laws including the Telephone Consumer Protection Act, the Telemarketing Sales Rule, the Telemarketing Consumer Fraud and Abuse Prevention Act and the rules and regulations promulgated thereunder.
- 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. A Wiretap Act violation is a Class D felony; the maximum authorized penalties for a violation of section 2511(1) of the Wiretap Act are imprisonment of not more than five years and a fine under Title 18. Authorized fines are typically not more than $250,000 for individuals or $500,000 for an organization, unless there is a substantial loss. State laws impose similar penalties.
- The Communications Assistance for Law Enforcement Act may require that the Company undertake material modifications to its platforms and processes to permit wiretapping and other access for law enforcement personnel.
- Under various Orders of the Federal Communications Commission, the Company may be required to make material retroactive and prospective contributions to funds intended to support Universal Service, Telecommunications Relay Service, Local Number Portability, the North American Numbering Plan and the budget of the Federal Communications Commission.

- Laws in most states of the United States of America may require registration or licensing of one or more subsidiaries of the Company, and may impose additional taxes, fees or telecommunications surcharges on the provision of the Company's services which the Company may not be able to pass through to customers.
- Our international operations may expose us to telecommunications regulations in the countries where we are operating and these regulations could negatively affect the viability of our business.

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

The federal government passed legislation placing a ban on state and local governments' imposition of new taxes on Internet access or electronic commerce transactions through the Internet Tax Freedom Act, which was extended through October 1, 2015. The proposed Marketplace Fairness Act, if enacted into law, would allow states to require online and other out of state merchants to collect and remit sales and use tax on products and services that they may sell. An increase in taxes may make electronic commerce transactions less attractive for advertisers and businesses, which could result in a decrease in the level of usage of our services. Additionally, from time to time, various state, federal and other jurisdictional tax authorities undertake reviews of the Company and the Company's filings. In evaluating the exposure associated with various tax filing positions, the Company on occasion accrues charges for probable exposures. We cannot predict the outcome of any of these reviews.

Risks Relating to the Offering and Ownership of our Class B common stock

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. Since our initial public offering, the closing sale price of our Class B common stock on the NASDAQ Global Select Market ranged from $3.00 to $26.14 per share through December 31, 2014. Our stock prices may fluctuate in response to a number of events and factors, which may be the result of our business strategy or events beyond our control, including:

- developments concerning proprietary rights, including patents, by us or a competitor;
- announcements by us or our competitors of significant contracts, acquisitions, financings, commercial relationships, joint ventures or capital commitments;
- registration of additional shares of Class B common stock in connection with acquisitions;
- actual or anticipated fluctuations in our operating results;
- lawsuits initiated against us or lawsuits initiated by us;
- announcements of acquisitions or technical innovations;
- potential loss or reduced contributions from distribution partners, reseller partners and agencies, or advertisers;
- 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;
- 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"); and
- short sales, hedging and other derivative transactions on shares of our Class B common stock.

In addition, the stock market in general, and the NASDAQ Global 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 executive founders control the outcome of stockholder voting, and there may be an adverse effect on the price of our Class B common stock due to the disparate voting rights of our Class A common stock and our Class B common stock.

As of December 31, 2014, Russell C. Horowitz, Ethan A. Caldwell and Peter Christothoulou, our executive founders, beneficially owned 100% of the outstanding shares of our Class A common stock, which shares represented 78% of the combined voting power of all outstanding shares of our capital stock. These executive founders together control 79% of the combined 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 these executive founders. 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 these executive founders have a controlling interest, they will continue to be able to elect all or a majority of our board of directors and generally be able to determine the outcome of all corporate actions requiring stockholder approval. As a result, these executive founders will be in a position to continue to control all fundamental matters affecting our company, including any merger involving, sale of substantially all of the assets of, or change in control of, our company. The ability of these executive founders to control our company may result in our Class B common stock trading at a price lower than the price at which such stock would trade if these executive founders did not have a controlling interest in us. This control may deter or prevent a third party from acquiring us which could adversely affect the market price of our Class B common stock.

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

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

- the authorized number of our directors can be changed only by a resolution of our board of directors;
- advance notice is required for proposals that can be acted upon at stockholder meetings;
- there are limitations on who may call stockholder meetings; and
- our board of directors is authorized, without prior stockholder approval, to create and issue "blank check" preferred stock.

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

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

Under Delaware law, dividends to stockholders may be made only from the surplus of a company, or, in certain situations, from the net profits for the current fiscal year or the fiscal year before which the dividend is declared. We have initiated and paid a quarterly dividend on our Class B common stock since November 2006. Our ability to pay dividends in the future will depend on our financial results, liquidity and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Our headquarters are located in Seattle, Washington and consist of approximately 61,000 square feet of leased office space expiring in March 2018. We lease additional office space in Las Vegas, Nevada, and New York, New York with lease terms expiring in October 2017 and March 2018. 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.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

PART II

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:

	High	Low
Year ended December 31, 2013		
First Quarter	$ 4.41	$3.52
Second Quarter	$ 6.14	$3.72
Third Quarter	$ 7.75	$5.87
Fourth Quarter	$ 9.90	$7.15
Year ended December 31, 2014		
First Quarter	$12.47	$8.89
Second Quarter	$12.09	$9.24
Third Quarter	$12.39	$3.96
Fourth Quarter	$ 5.25	$3.55

Holders

As of March 6, 2015, there were 42,029,551 shares of common stock outstanding that were held by 118 stockholders of record. Of these shares:

- 5,232,636 shares were issued as Class A common stock, and as of this date were held by 3 stockholders of record; and
- 36,796,915 shares were issued as Class B common stock, and as of this date were held by 115 stockholders of record.

Dividends

In November 2006, we initiated a quarterly cash dividend at $0.02 per share of Class A common stock and Class B common stock. In August 2012, our board of directors approved an increase to the quarterly cash dividend to Class A and Class B common stockholders from $0.02 per share to $0.035 per share. In December 2012, our board of directors declared a quarterly dividend for the first, second, third and fourth quarters of 2013 totaling $0.14 per share on our Class A common stock and Class B common stock which was paid on December 31, 2012. The dividend paid totaled approximately $5.3 million. In 2014, our board of directors declared quarterly dividends in the amount of $0.02 per share on our Class A and Class B common stock in each of the quarters. Dividend payments in 2014 totaled $3.3 million. In January 2015, our board of directors declared a quarterly dividend in the amount of $0.02 per share on our Class A and Class B common stock, which was paid on February 17, 2015. Although we expect that the annual cash dividend, subject to capital availability, will be $0.08 per common share or approximately $3.4 million for the foreseeable future, there can be no assurance that we will continue to pay dividends at such a rate or at all.

Issuer Purchases of Equity Securities

During the fourth quarter of 2014, share repurchase activity was as follows:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares (or approximate dollar value) that may yet be purchased under the plans or programs (1)
Class B Common Shares:				
October 1—October 31, 2014 (2)	2,500	$ 0.01	—	3,000,000
November 1—November 30, 2014 (2)	356,348	$ 3.63	351,098	2,648,902
December 1—December 31, 2014 (2),(3)	703,946	$ 4.22	317,520	2,331,382
Total Class B Common Shares	1,062,794	$ 4.01	668,618	2,331,382

(1) 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. 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.

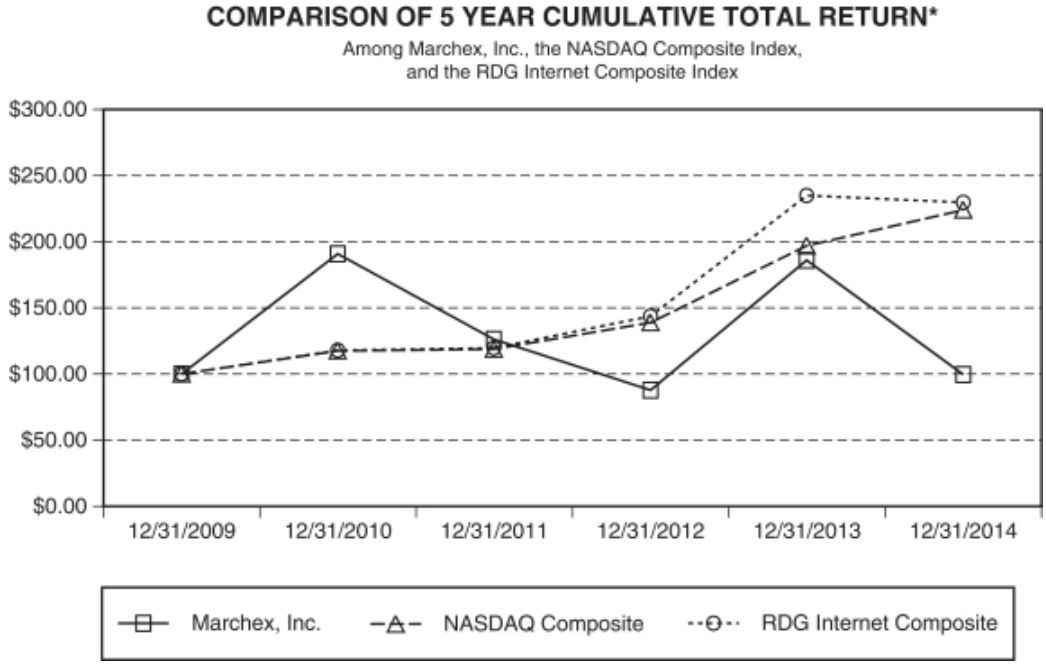
(2) Shares of restricted equity subject to vesting which were issued to a certain employee. We repurchased 2,500, 5,250 and 2,812 shares which were not already vested for $0.01 per share upon termination of employment for the months ended October 31, November 30 and December 31, 2014, respectively.

(3) Includes 383,614 shares of Class B common stock for the period December 31, 2014, which were repurchased to satisfy certain employees' minimum tax withholding obligations in connection with the vesting of restricted stock awards and were based on the fair market value on the vesting date.

Stock Performance Graph

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of Marchex under the Securities Act of 1933, as amended or the Exchange Act.

The following graph shows a comparison from December 31, 2009 through December 31, 2014 of cumulative total return for our Class B common stock, the NASDAQ Composite Index (the "NASDAQ Composite Index") and the RDG Internet Composite Index (the "RDG Index"). Measurement points are the last trading day of each of the Company's fiscal years ended December 31, 2009 through 2014. The graph assumes that $100 was invested on December 31, 2009 in the Class B common stock of the Company, the NASDAQ Composite Index and the RDG Internet Composite Index and assumes reinvestment of any dividends. Such returns are based on historical results and are not intended to suggest future performance.



*$100 invested on 12/31/09 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
Marchex, Inc.	$ 100	$190.58	$126.09	$ 88.17	$185.56	$ 99.59
NASDAQ Composite Index	$ 100	$117.61	$118.70	$139.00	$196.83	$223.74
RDG Internet Composite Index	$ 100	$117.87	$119.73	$143.58	$234.21	$229.15

ITEM 6. SELECTED FINANCIAL DATA.

The following selected consolidated financial data should be read in conjunction with Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes appearing elsewhere in this Form 10-K.

The consolidated financial data for the years ended December 31, 2010 and 2011 is derived from our audited consolidated financial statements which are not included in this Form 10-K.

The consolidated statement of operations data for the years ended December 31, 2012, 2013 and 2014, and the consolidated balance sheet data at December 31, 2013 and 2014, are derived from our audited consolidated financial statements appearing elsewhere in this Form 10-K.

The historical results are not necessarily indicative of the results to be expected in any future period.

Consolidated Statements of Operations Data (in thousands except per share amounts):

	Year ended December 31,				
	2010	2011	2012	2013	2014
Revenue	$85,828	$ 138,726	$ 132,794	$ 152,550	$ 182,644
Income (loss) from operations	$ (4,548)	$ 5,724	$ (17,243)	$ 2,749	$ 4,962
Income (loss) from continuing operations	$ (3,515)	$ 2,755	$ (34,258)	$ 957	$ (19,377)
Discontinued operations, net of tax	$ 472	$ 204	$ (938)	$ 860	$ 287
Net income (loss)	$ (3,043)	$ 2,959	$ (35,196)	$ 1,817	$ (19,090)
Net income (loss) applicable to common stockholders	$ (3,242)	$ 2,700	$ (35,853)	$ 1,817	$ (19,217)
Basic and diluted net income (loss) per Class A share applicable to common stockholders:					
Continuing operations applicable to common stockholders	$ (0.11)	$ 0.07	$ (1.03)	$ 0.03	$ (0.49)
Discontinued operations, net of tax	$ 0.01	$ 0.01	$ (0.03)	$ 0.02	$ 0.01
Net income (loss) per Class A share applicable to common stockholders	$ (0.10)	$ 0.08	$ (1.06)	$ 0.05	$ (0.48)
Basic and diluted net income (loss) per Class B share applicable to common stockholders:					
Continuing operations applicable to common stockholders	$ (0.11)	$ 0.07	$ (1.02)	$ 0.03	$ (0.49)
Discontinued operations, net of tax	$ 0.01	$ 0.01	$ (0.03)	$ 0.02	$ 0.01
Net income (loss) per Class B share applicable to common stockholders	$ (0.10)	$ 0.08	$ (1.05)	$ 0.05	$ (0.48)
Shares used to calculate basic net income (loss) per share:					
Class A	10,661	9,928	9,574	8,816	5,853
Class B	21,993	23,358	24,412	26,798	34,157
Shares used to calculate diluted net income (loss) per share:					
Class A	10,661	9,928	9,574	8,816	5,853
Class B	32,654	35,318	33,986	36,999	40,010

Consolidated Balance Sheet Data (in thousands), except per share data:

	December 31,				
	2010	2011	2012	2013	2014
Cash and cash equivalents	$ 37,328	$ 37,443	$ 15,930	$ 30,912	$ 80,032
Working capital	$ 47,305	$ 16,168	$ 21,683	$ 39,675	$ 85,849
Total assets	$ 159,690	$ 220,058	$ 149,147	$ 162,148	$ 180,669
Other non-current liabilities	$ 2,076	$ 2,580	$ 2,216	$ 2,095	$ 1,118
Total liabilities	$ 19,998	$ 61,050	$ 26,212	$ 27,393	$ 24,516
Total stockholders' equity	$ 139,692	$ 159,008	$ 122,935	$ 134,755	$ 156,153
Cash dividends declared per common share	$ 0.08	$ 0.08	$ 0.25	$ —	$ 0.08

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 is a mobile advertising technology company. We provide products and services for businesses of all sizes that depend on consumer calls to drive sales. Our technology platform delivers performance-based, pay-for-call advertising across numerous mobile and online publishers to connect millions of high-intent consumers with businesses over the phone. Our call analytics technology facilitates call quality, analyzes calls in real time and measures the outcomes of calls to close the loop between digital marketing and offline transactions. We help large national brands and small-and medium-sized businesses ("SMBs") facilitate efficient and cost-effective marketing campaigns to drive calls and customer leads to their business. We provide a performance-based pay-per-click advertising service that connects advertisers with consumers across our owned and operated web sites as well as third party web sites and we also sell domain names.

Our technology-based products and services enable our customers to connect with consumers across leading third-party mobile and online channels, as well as our proprietary network of locally-focused web sites. We have direct relationships with large national advertisers and advertising agencies which utilize our products and services to plan, execute and measure their call-focused advertising campaigns. We also provide private-label performance marketing solutions for SMBs through a network of large reseller partners, which include Yellow Pages publishers, media and telecommunications companies and vertical marketing service providers. We enable these partners to sell pay-for-call advertising, call-analytics, search engine marketing and other digital marketing services to their millions of small business customers. We execute these campaigns for them using our technology. Our primary products offerings are:

- ***Marchex Call Marketplace.*** Through the Marchex Call Marketplace, we deliver a variety of call advertising products and services to national advertisers, advertising agencies and small advertiser reseller partners. The Marchex Call Marketplace is a mobile advertising solution focused on delivering customers on a pay-for-call basis. We offer exclusive and preferred ad placements across numerous mobile and online media sources to drive advertisers qualified calls to their businesses. It leverages our Marchex Call Analytics platform to secure call tracking numbers and to provide qualified calls to advertisers by blocking spam and other telemarketing calls while working to optimize the return on investment for advertisers' marketing investment.
- ***Marchex Call Analytics***. Our Marchex Call Analytics technology platform provides data and insights that measure the performance of mobile, online and offline ad campaigns for advertisers and small business resellers. Our analytics technology tracks calls and helps advertisers understand which marketing channels, advertisements, keywords and creatives are driving calls to their business, allowing them to optimize their advertising expenditures across media channels. Call Analytics also includes call recording, call quality filtering and real-time call intelligence to provide rich insights into what is happening during a call and to measure the outcome of calls and return on investment. Advertisers pay us a fee for each call they receive from call-based ads we distribute through our sources of call distribution or for each phone number tracked based on a pre-negotiated rate.
- ***Local Leads***. Our Local Leads platform is a white-labeled, full service advertising solution for small business resellers, such as Yellow Pages providers and vertical marketing service providers, to sell call advertising, search marketing and other lead generation products through their existing sales channels to their small business advertisers. These calls and leads are then fulfilled by us across our distribution network, including mobile sources, and leading search engines. The lead services we offer to small

business advertisers through our Local Leads platform include products typically available only to national advertisers, including pay-for-call, search marketing, ad creation and include advanced features such as call tracking, geo-targeting, campaign management, reporting, and analytics. The Local Leads platform is highly scalable and has the capacity to support hundreds of thousands of advertiser accounts. Reseller partners and publishers generally pay us account fees and agency fees for our products in the form of a percentage of the cost of every click or call delivered to their advertisers. Through our contract with Yellowpages.com LLC ("YP"), we generate revenues from our local leads platform. We also have a separate pay-for-call services arrangement with YP. Both arrangements expire in June 2015. YP is our largest reseller partner and was responsible for 28%, 25% and 24% of our total revenues in the years ended December 31, 2012, 2013 and 2014, respectively. We also have a separate distribution partner agreement with YP.

In addition to our call-driven business, we operate the Archeo Domains Marketplace, which enables the buying, selling and development of premium domain names, and includes more than 200,000 of our owned and operated websites. Our portfolio of websites contains thousands of U.S. ZIP code sites, including 90210.com and other locally-focused sites such as Yellow.com, OpenList.com and geo-targeted sites. We monetize this portfolio via pay-per-click and banner advertising and also make these domains available for sale to third parties.

We generate revenue from two business segments. Call-driven revenue consists of payments from advertisers for pay-for-call marketing services and for use of our Call Analytics technology. Call-driven revenue also consists of payments from our reseller partners for use of our technology platform and marketing services, which they offer to their small business customers, as well as payments from advertisers for cost-per-action services. Archeo revenue includes revenue generated from advertisements on our network of owned and operated websites and third-party distribution, as well as from the sale of domain names in our Domains Marketplace. Call-driven revenue accounted for more than 84% of total revenues in all periods presented. We operate primarily in domestic markets. For detail on revenue by segment and geographical area for the three most recent fiscal years, see *Note 11. Segment Reporting and Geographic Information* of the notes to our consolidated financial statements.

We were incorporated in Delaware on January 17, 2003. Acquisition initiatives have played an important part in our corporate history to date.

We currently have offices in Seattle, Washington; Las Vegas, Nevada; and New York, New York.

Consolidated Statements of Operations

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

In the third quarter of 2013, we sold certain assets related to our pay-per-click advertising services in which the operating results have been classified and presented as discontinued operations, net of tax (see *Note 12. Discontinued Operations*) as well as revised our segment reporting to reflect the change in segment performance measures for all periods presented (see *Note 11. Segment Reporting and Geographic Information)*.

Presentation of Financial Reporting Periods

The comparative periods presented are for the years ended December 31, 2012, 2013 and 2014.

Revenue

We currently generate revenue through our call advertising services, pay-per-click advertising, local leads platform which include our call and click services, proprietary web site traffic and domain name sales through our Domains Marketplace.

Our performance-based advertising services, which include call advertising, pay-per-click services, and cost-per-action services accounted for more than 76% of our revenues in all periods presented. The local leads platform which enables partner resellers to sell call advertising and/or search marketing products, campaign management services, and starting in September 2013, domain name sales through our Domains Marketplace accounted for less than 24% of our revenues in all periods presented. We have no barter transactions.

On September 10, 2013, we launched our Domains Marketplace, which provides domain names available for sale and initiated plans to facilitate the active buying and transacting of domain names. Domain name sales occurring after this launch have been recognized as revenue in the consolidated financial statements. Historically, the sale of domain names were not a core operation and were peripheral to the generation of advertising revenue from domain names held for use, and as such, domain name sales were reported as gains on sales and disposals of intangible assets, net in the consolidated financial statements.

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

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

Performance-Based Advertising Services

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

We generate revenue from reseller partners and publishers utilizing our local leads platform to sell call advertising and/or search marketing and other lead generation products. We are paid account fees and also agency fees for our products in the form of a percentage of the cost of every call or click delivered to advertisers. The reseller partners or publishers engage the advertisers and are the primary obligor, and we, in certain instances, are only financially liable to the publishers in our capacity as a collection agency for the amount collected from the advertisers. We recognize revenue for these fees under the net revenue recognition method. In limited arrangements resellers pay us a fee for fulfilling an advertiser's campaign in our distribution network and we act as the primary obligor. We recognize revenue for these fees under the gross revenue recognition method.

In providing pay-per-click contextual targeting services, advertisers purchase keywords or keyword strings, based on an amount they choose for a targeted placement on vertically-focused web sites or specific pages of a web site that are specific to their products or services and their marketing objectives. The contextual results distributed by our services are prioritized for users by the amount the advertiser is willing to pay each time a user clicks on the merchant's advertisement and the relevance of the merchant's advertisement, which is dictated by historical click-through rates. Advertisers pay us when a click-through occurs on their advertisement. In July 2013, we sold certain assets related to our pay-per-click contextual advertising services. The results of operations of these certain pay-per-click assets have been presented in the consolidated financial statements as discontinued operations. See *Note 12 Discontinued Operations* for further discussion.

Search Marketing Services and Domains Name Sales

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

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

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

We generate revenue from domain name sales through our Domains Marketplace. Our Domains Marketplace was launched in September 2013 and provides domain names available for sale and initiated plans to facilitate the buying and transacting of domain names. Domain name sales occurring after the launch date are recognized as revenue.

Industry and Market Factors

We enter into agreements with various mobile, online and offline distribution partners to provide distribution for pay-for-call and pay-per-click advertisement listings, which contain call tracking numbers and/or URL strings of our advertisers. We generally pay distribution partners based on a percentage of revenue or a fixed amount for each phone call or per click-through on these listings. The level of phone calls and click-throughs contributed by our distribution partners has varied, and we expect it will continue to vary, from quarter to quarter and year to year, sometimes significantly. If we do not add new distribution partners, renew our current distribution partner agreements, replace traffic lost from terminated distribution agreements with other sources or if our distribution partners' search businesses do not grow or are adversely affected, our revenue and results of operations may be materially and adversely affected. Our ability to grow will be impacted by our ability to increase our distribution, which impacts the number of mobile and Internet users who have access to our advertisers' listings and the rate at which our advertisers are able to convert calls and clicks from these mobile and Internet users into completed transactions, such as a purchase or sign up. Our ability to grow also depends on our ability to continue to increase the number of advertisers who use our services and the amount these advertisers spend on our services. Our ability to maintain and grow revenues will also depend on maintaining and growing the number of domain name sales and the average revenue per domain. If we are unable to attract prospective buyers to purchase domains and at the price we value the domains, our revenue and results of operations could be materially and adversely affected.

We have revenue concentrations with certain large advertisers. Most of these customers are not subject to long term contracts with us and are generally able to reduce advertising spending at any time and for any reason. A significant reduction in advertising spending by our largest customers, or the loss of one or more of these customers, if not replaced by new customers or an increase in business from existing customers, would adversely affect revenues and profitability. This could have a material adverse effect on our results of operations and financial condition.

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 the number of phone calls or click-throughs which will be delivered to our advertisers and how much advertisers will spend with us, and it is even more difficult to anticipate the average revenue per phone call or click-through. It is also difficult to anticipate the impact of worldwide and domestic economic conditions on advertising budgets.

In addition, we believe we will experience seasonality. Our quarterly results have fluctuated in the past and may fluctuate in the future due to seasonal fluctuations in levels of mobile and Internet usage and seasonal purchasing cycles of many advertisers. Our experience has shown that during the spring and summer months, mobile and Internet usage is lower 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 volume and reduced demand for calls from our mobile call advertising customers. The extent to which usage and call volume may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage and call volume during these periods may adversely affect our growth rate and results and in turn the market price of our securities. Additionally, the current business environment has generally resulted in advertisers and reseller partners reducing advertising and marketing services budgets or changing such budgets throughout the year, which we expect will impact our quarterly results of operations in addition to the typical seasonality seen in our industry. Our quarterly results will also be impacted by the timing of domain name sales, which were recognized as revenue starting in September 2013 with the launch of our Domains Marketplace.

Service Costs

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

- user acquisition costs;
- amortization of intangible assets;
- license and content fees;
- credit card processing fees;
- network operations;
- serving our search results;
- telecommunication costs, including the use of phone numbers relating to our call products and services;
- maintaining our web sites;
- domain name registration renewal fees;
- domain name costs;
- network fees;
- fees paid to outside service providers;
- delivering customer service;
- depreciation of our web sites, network equipment and internally developed software;
- colocation service charges of our network web site equipment;
- bandwidth and software license fees;
- payroll and related expenses of related personnel; and
- stock-based compensation of related personnel.

User Acquisition Costs

For the periods presented the largest component of our service costs consists of user acquisition costs that relate primarily to payments made to distribution partners for access to their mobile, online, offline, or other user traffic. We enter into agreements of varying durations with distribution partners that integrate our services into their web sites and indexes. The primary economic structure of the distribution partner agreements is a variable

payment based on a specified percentage of revenue. These variable payments are often subject to minimum payment amounts per phone call or click-through. Other payment structures that to a lesser degree exist include:

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

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

Sales and Marketing

Sales and marketing expenses consist primarily of:

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

Product Development

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

Our research and development expenses include:

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

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

Product development costs are expensed as incurred or capitalized into property and equipment in accordance with FASB ASC 350. This statement requires that costs incurred in the preliminary project and post-implementation stages of an internal use software project be expensed as incurred and that certain costs incurred in the application development stage of a project be capitalized.

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, net of estimated forfeitures, over the vesting or service period, as applicable, of the stock award using the straight-line method. Stock-based compensation expense has been included in the same lines as compensation paid to the same employees in the consolidated statement of operations.

Amortization of Intangibles from Acquisitions

Amortization of intangible assets excluding goodwill related to intangible assets identified in connection with our acquisitions.

The intangible assets have been identified as:

- non-competition agreements;
- trademarks and Internet domain names;
- distributor relationships;
- advertising relationships;
- patents; and
- acquired technology.

These assets are amortized over useful lives ranging from 12 to 84 months. As of December 31, 2014, our intangible assets from acquisitions have been fully amortized.

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. In 2014, we adopted ASU 2013-11 whereby we reclassified uncertain tax positions of $534,000 from other non-current liabilities to deferred tax assets.

At December 31, 2014, based upon both positive and negative evidence available, the Company determined that it is not more likely than not that its deferred tax assets of $44.8 million will be realized and accordingly, the Company has recorded 100% valuation allowance of $44.8 million against these deferred tax assets. During the third quarter of 2014, the valuation allowance increased by $22.3 million resulting in a corresponding income tax expense of $22.3 million. In assessing the realizability of deferred tax assets, the Company 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. The Company considered the future reversal of deferred tax liabilities, carryback potential, projected taxable income, and tax planning strategies as well as its history of taxable income or losses in the relevant jurisdictions in making this assessment. The Company incurred taxable losses in 2012, 2013, and 2014 of $3.5 million, $7.6 million, and $10.5 million, respectively. During the third quarter of 2014, a

significant customer cancelled its arrangement with the Company resulting in lower projected revenue and profitability. 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, the Company concluded that it is not more likely than not that the gross deferred tax assets will be realized.

At December 31, 2013 and 2014, based upon both positive and negative evidence available, the Company has determined it is not more likely than not that certain deferred tax assets primarily relating to NOL carryforwards in certain state, city, and foreign jurisdictions will be realizable and accordingly, recorded a 100% valuation allowance of $6.0 million and $6.0 million against these deferred tax assets, respectively. The Company does not have a history of taxable income in the relevant jurisdictions and the state and foreign NOL carryforwards will more likely than not expire unutilized. Should the Company determine in the future that all or part of the deferred tax assets will be realized, a tax benefit will be recorded accordingly in the period such determination is made.

As of December 31, 2014, we have federal NOL carryforwards, excluding those acquired, of $21.6 million, which begin to expire in 2032. In connection with the 2011 Jingle acquisition, we acquired and recorded federal NOL carryforwards that may be utilized of approximately $7.0 million of which $2.6 million was utilized in 2011. These acquired NOL carryforwards will begin to expire in 2026. Where there is a “change in ownership” within the meaning of Section 382 of the Internal Revenue Code (“Code”), the acquired federal NOL carryforwards are subject to an annual limitation. We believe that such an ownership change had occurred at Jingle, and that the utilization of the carryforwards is limited such that the majority of the NOL carryforwards will never be utilized. Accordingly, we have not recorded those amounts we believe we will not be able to utilize and have not included those NOL carryforwards in our deferred tax assets.

As of December 31, 2014, we have certain federal NOLs of $1.7 million, which will begin to expire in 2019. The Tax Reform Act of 1986 limits the use of NOL and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. We believe that such a change has occurred, and that these NOL carryforwards are limited such that substantially all of these federal NOL will never be available. Accordingly, we have not recorded a deferred tax asset for these NOLs.

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.

Comparison of the year ended December 31, 2013 (2013) to the year ended December 31, 2014 (2014) and comparison of the year ended December 31, 2012 (2012) to the year ended December 31, 2013 (2013).

Segments

We have organized our operations into two segments: (1) the Call-driven segment, which is comprised of our performance-based advertising business focused on driving phone calls; and (2) the Archeo segment, which is comprised of our click-based advertising and Internet domain name businesses. In 2013, we changed our segment reporting to reflect the reallocation of our general corporate overhead expenses to the Call-driven segment to reflect changes in how our chief operating decision maker (“CODM”) internally measures segment performance. The tables below reflect these reclassifications to conform to the current presentation.

In July 2013, we sold certain assets related to Archeo's pay per click advertising services. As a result, the operating results related to these certain pay per click assets are shown as discontinued operations, net of tax in the consolidated statements of operations for all periods presented and are excluded from segment reporting. See *Note 12. Discontinued Operations* for further discussion.

	Years ended December 31,		
	2012	2013	2014
Call-driven			
Revenue	$ 111,886	$ 135,126	$ 168,051
Operating expenses	106,795	128,829	156,952
Segment profit	$ 5,091	$ 6,297	$ 11,099
Archeo			
Revenue	$ 20,908	$ 17,424	$ 14,593
Operating expenses	12,582	11,705	8,461
Gain on sale of intangible assets, net	6,296	3,774	—
Segment profit	$ 14,622	$ 9,493	$ 6,132
Reconciliation of segment profit to net income (loss) from continuing operations before provision for income taxes:			
Total segment profit	$ 19,713	$ 15,790	$ 17,231
Less reconciling items:			
Stock based compensation	15,638	9,237	11,903
Impairment of goodwill	15,837	—	—
Amortization of intangible assets from acquisitions	4,728	2,926	434
Acquisition and separation related costs	753	878	(68)
Interest expense and other, net	449	37	62
Net income (loss) from continuing operations before provision for income taxes	$ (17,692)	$ 2,712	$ 4,900

	Years ended December 31,		
	2012	2013	2014
Reconciliation of segment revenue to consolidated revenue			
Call-driven	$ 111,886	$135,126	$168,051
Archeo	20,908	17,424	14,593
Total	$132,794	$152,550	$182,644

Revenue.

2013 to 2014

Revenue increased 20% from $152.6 million in 2013 to $182.6 million in 2014. The increase was due primarily to an increase in our Call-driven revenues.

Our Call-driven revenues increased 24% from $135.1 million in 2013 to $168.1 million in 2014. This increase was primarily due to an increase in national advertiser budgets in our pay-for-call services within our Call Marketplace.

Our Archeo revenues decreased 16% from $17.4 million in 2013 to $14.6 million in 2014. Archeo revenues for 2014 included domain name sales of $7.3 million compared to total domain transactions of $6.2 million in 2013, which is comprised of $2.4 million recognized in revenue after the launch of Domains Marketplace and $3.8 million recognized as gain/loss on sale of intangible assets, net, prior to the launch of Domains Marketplace.

The decrease in revenues was primarily from our cost-per-actions revenue from resellers related to our local search and directory web sites, our pay-per-click listings revenue and presence management due to fewer advertisers utilizing our services and lower advertiser spend amounts on our pay-per-click listings, which was partially offset by the increase in domain name revenues.

Our arrangement with Allstate Insurance Company ("Allstate") was for call advertising services, which accounted for 12% and 27% of total revenues for years ended December 31, 2013 and 2014, respectively. Our primary arrangement with Allstate in 2014 was for pay-for-call services within our Call Marketplace whereby we charge an agreed-upon price for qualified calls or leads from our network. In September 2014, Allstate ceased purchases of the pay-for-call services and reduced their planned pay-for-call advertising spend for the fourth quarter of 2014 to zero. We do not expect Allstate will purchase additional pay-for-call services in the foreseeable future, which is anticipated to have a material adverse effect on our future operating results. The call analytics service relationship with Allstate, which provides a small, non-material financial contribution to our operating results, will cease in the first quarter of 2015. Allstate accounted for $48.8 million of total revenues for the year ended December 31, 2014. The related distribution partner payments (a component of service costs) were $43.3 million and revenues less such distribution partner payments were $5.5 million, for the year ended December 31, 2014. Substantially all the revenue and distribution partner payments related to the nine months ended September 30, 2014.

Under our primary arrangement with YP, we generate revenues from our local leads platform to sell call advertising and/or search marketing packages through their existing sales channels, which are then fulfilled by us across our distribution network. We are paid account fees and agency fees for our products in the form of a percentage of the cost of every call or click delivered to their advertisers. In the second quarter of 2010, we signed an extension of our arrangement with YP through June 2015 that includes certain provisions for new advertiser accounts and contemplated the migration of several thousand existing advertiser accounts. In July 2013, we amended our arrangement with YP, which lowered certain agency fees beginning July 1, 2013 through June 2015. We also extended a separate pay-for-call relationship through June 2015 with YP within our Call Marketplace. We charge an agreed-upon price for qualified calls or leads from our network. Amounts we receive from YP for the pay-for-call services has grown due to more dollars being spent by the small business accounts on our platform on our pay-for-call services. To the extent our revenues from large national advertisers grow at a faster rate than from YP small business accounts, our revenues from YP as a percentage of our total revenue may decrease. We expect, given the reduction of spend from Allstate, YP will comprise a greater percentage of total revenues in the near term periods. Additionally, YP's small business account base from their traditional business has declined, and to the extent declines occur in their business, their small business accounts may spend fewer dollars on our pay-for-call services. In addition, to the extent YP decreases the number of new advertiser accounts with us, it may result in fewer small business accounts and related revenues on our platform. We also have a separate distribution partner agreement with YP. There can be no assurance that our business with them in the future will continue at or near current revenue and contribution levels, that we will be able to renew and extend the contracts set to expire in June 2015, and if renewed, the contracts may be on less favorable terms to us, any of which could have a material adverse effect on our future operating results. YP accounted for 25% and 24% of total revenues for the years ended December 31, 2013 and 2014, respectively.

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

	Years ended December 31,		
	2012	2013	2014
Partner and Other Revenue Sources	$ 121,904	$ 141,617	$ 171,314
Proprietary Web Site Traffic Sources and Domain Name Revenue	10,890	10,933	11,330
Total Revenue	$ 132,794	$ 152,550	$ 182,644

Our partner network revenues are primarily generated using third party distribution networks to deliver the pay-for-call and pay-for-click advertisers' listings. The distribution network includes mobile and online search

engine applications, directories, destination sites, shopping engines, third party Internet domains or web sites, other targeted Web-based content and offline sources. We generate revenue upon delivery of qualified and reported phone calls or click-throughs to our advertisers or to advertising services providers' listings. We pay a revenue share to the distribution partners to access their mobile, online, offline or other user traffic. We also generate revenue from cost-per-action services, which occurs when a user makes a phone call from our advertiser's listing or is redirected from one of our web sites or a third party web site in our distribution network to an advertiser web site and completes the specified action. Other revenues include our call provisioning and call tracking services, presence management services, campaign management services and outsourced search marketing platforms. The partner and other revenues increased 21% from $141.6 million for the year ended December 31, 2013 to $171.3 million in the same period in 2014. The increase was primarily due to an increase in our Call-driven revenues offset partially by a decrease in our pay-per-click listings revenues and presence management due to fewer advertisers utilizing our services and lower advertiser spend amounts on the pay-per-click listings.

Our proprietary web site traffic revenues are generated from our portfolio of owned web sites, which are monetized with pay-for-call or pay-per-click listings that are relevant to the web sites, as well as other forms of advertising, including banner advertising and sponsorships. When an online user navigates to one of our web sites and calls or clicks on a particular listing or completes the specified action, we receive a fee. We also generate revenue from domain name sales. Our proprietary web site traffic and domain name revenues was $10.9 million for the year ended December 31, 2013 compared to $11.3 million for the same period in 2014. This increase was primarily due to domain name sales recognized in revenues of $7.3 million for the year ended December 31, 2014 compared to $2.4 of domain sales recognized in revenue for the same period in 2013. For the year ended December 31, 2013, there were additional domain name transactions that totaled $3.7 million and were recognized as gain/loss on sale of intangible assets, net. This increase was offset partially by a $3.9 million decrease in revenues for cost-per-actions due to lower budgets from resellers related to our local search and directory web sites. The increase was also offset partially by a $2.6 million decrease in revenues generated from our pay-per-click listings on our web sites due to lower click-throughs.

2012 to 2013

Revenue increased 15% from $132.8 million for 2012 compared to $152.6 million in 2013. The partner and other revenues increased $19.7 million primarily from our call advertising services. Our call advertising services revenue increases are primarily due to increases in national advertiser budgets and thousands of additional small business accounts utilizing our call analytics platform. This increase was partially offset by a $4.2 million decrease in revenue from our pay-per-click services primarily due to fewer advertisers and lower advertiser spend amounts.

Our proprietary web site traffic revenues and Domain Name revenues were $10.9 million for both 2012 and 2013. Our proprietary web site traffic revenues decreased $2.5 million and were primarily a result of lower revenues from cost-per-actions from resellers related to our local search and directory web sites and lower revenues from our arrangement with an advertiser service provider whereby we receive payment upon click-throughs on pay-per-click listings presented our web sites. This decrease related to our advertiser service provider was principally due to lower click-throughs on pay-per-click listings presented on our Web sites from the advertiser service provider. These decreases were offset by domain name revenues of $2.5 million that had no comparable revenue in 2012, although domain name transaction amounts recognized as gain/loss on sale of intangible assets prior to our Domains Marketplace launch, totaled $6.3 million in 2012 and $3.8 million in 2013.

Our ability to maintain and grow our revenues will depend in part on maintaining and increasing the number of phone calls, click-throughs, and cost-per-actions performed by users of our service through our distribution partners and proprietary web site traffic sources and maintaining and increasing the number and volume of transactions and favorable variable payment terms with advertisers and advertising services providers. We believe this is dependent in part on delivering high quality traffic and marketing our web sites that ultimately results in purchases or conversions for our advertisers and advertising services providers. We may increase our direct monetization of our proprietary traffic sources, which may not be at the same rate levels as other

advertising providers and could adversely affect our revenues and results of operations. Companies distributing advertising through the Internet and mobile sources have experienced, and will likely to continue experience consolidation. If we do not add new distribution partners, renew our current distribution partner agreements or replace traffic lost from terminated distribution agreements with other sources or if our distribution partners' businesses do not grow or are adversely affected, our revenue and results of operations may be materially and adversely affected. If revenue grows and the volume of transactions and traffic increases, we will need to expand our network infrastructure. Inefficiencies in our network infrastructure to scale and adapt to higher traffic volumes could materially and adversely affect our revenue and results of operations. In addition, our ability to maintain and grow revenues will also depend on maintaining and growing the number of domain name sales and the average revenue per domain. If we are unable to attract prospective buyers to purchase domains and at the price we value the domains, our revenue and results of operations could be materially and adversely affected.

We anticipate that these variables will fluctuate in the future, affecting our growth rate and our financial results. In particular, it is difficult to project the number of phone calls and click-throughs we will deliver to our advertisers and how much advertisers will spend with us, and it is even more difficult to anticipate the average revenue per phone call or click-through. With the recognition of domain name sales in revenue, it will be difficult to predict the number of domains that may be sold or the average revenue per domain sale. Domains sold have been through negotiated transactions and it may be difficult to determine the value of a domain to a prospective buyer. It is also difficult to anticipate the impact of worldwide and local economic conditions on advertising budgets.

In addition, we believe we will experience seasonality with our business. Our quarterly results have fluctuated in the past and may fluctuate in the future due to seasonal fluctuations in levels of mobile and Internet usage and seasonal purchasing cycles of many advertisers. Our experience has shown that during the spring and summer months, mobile and Internet usage is generally lower 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 volume and reduced demand for calls from our mobile call advertising customers. The extent to which usage and call volume may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage and call volume during these periods may adversely affect our growth rate and results and in turn the market price of our securities. In the first quarter of the calendar year, this trend generally reverses with increased mobile and Internet usage and often new budgets at the beginning of the year for many of our customers with fiscal years ending December 31. The seasonal purchasing cycles of some customers in certain industries may also be higher in the first half versus the latter half of the calendar year. Additionally, the current business environment has resulted in many advertisers and reseller partners reducing advertising and marketing services budgets or changing such budgets throughout the year, which we expect will impact our quarterly results of operations in addition to the typical seasonality seen in our industry. Our quarterly results will also be impacted by the timing of domain name sales which we began recognizing as revenue starting in September 2013 with the launch our Domains Marketplace.

Expenses

Expenses were as follows (in thousands):

	Years ended December 31,					
	2012	% revenue	2013	% revenue	2014	% revenue
Service costs	$ 75,920	57%	$ 91,858	60%	$114,581	63%
Sales and marketing	13,057	10%	11,182	7%	12,251	7%
Product development	23,200	17%	27,346	18%	29,561	16%
General and administrative	22,838	17%	19,385	13%	20,923	11%
Amortization of intangible assets from acquisitions	4,728	4%	2,926	2%	434	0%
Acquisition and separation related costs	753	1%	878	1%	(68)	0%
	$140,496	106%	$153,575	101%	$177,682	97%

We record stock-based compensation expense under the fair value method. Stock-based compensation expense has been included in the same lines as compensation paid to the same employees in the consolidated statement of operations. Stock-based compensation expense was included in the following operating expense categories as follows (in thousands):

	Years ended December 31,		
	2012	2013	2014
Service costs	$ 1,869	$1,180	$ 1,382
Sales and marketing	2,029	645	894
Product development	1,038	1,635	2,595
General and administrative	10,702	5,777	7,032
Total stock-based compensation	$15,638	$9,237	$11,903

See *Note 6 (b). Stock Option Plan* of the consolidated financial statements as well as our Critical Accounting Policies for additional information about stock-based compensation.

Service Costs. Service costs increased 25% from $91.9 million in 2013 to $114.6 million in 2014. The increase was primarily attributable to an increase in distribution partner payments, personnel costs, and stock based compensation totaling $23.7 million, offset partially by decreases in communication and network costs and fees paid to outside service providers.

Service costs increased 21% from $75.9 million in 2012 to $91.9 million in 2013. The increase was primarily attributable to an increase in distribution partner payments and personnel costs totaling $17.1 million, partially offset by a decrease in communication and network costs and stock-based compensation.

Service costs represented 63% of revenue in 2014 compared to 60% in 2013 and 57% in 2012. The 2014 and 2013 increase as a percentage of revenue was primarily a result of higher distribution partner payments and proprietary web site traffic and domain name revenues comprising a lower proportion of revenue compared to prior periods. Proprietary website traffic and domain name revenues have a lower service cost as a percentage of revenue relative to our overall service cost percentage.

We expect that user acquisition costs and revenue shares to distribution partners are likely to increase prospectively given the competitive landscape for distribution partners. To the extent that payments to pay-for-call, pay-per-click or cost-per-action distribution partners make up a larger percentage of future operations, or the addition or renewal of existing distribution partner agreements are on terms less favorable to us, we expect that service costs will increase as a percentage of revenue. To the extent of revenue declines in these areas, we expect revenue shares to distribution partners to decrease in absolute dollars. Our other sources of revenues such as our proprietary web site traffic sources, local leads platform, and domain name sales have no corresponding distribution partner payments and accordingly have a lower service cost as a percentage of revenue relative to our overall service cost percentage. In addition, advertisers from whom we generate a portion of our call advertising revenues through our local leads platform generally have lower service costs as a percentage of revenue relative to our overall service cost percentage. To the extent our proprietary traffic sources, local leads platform, and domain name sales make up a larger percentage of our future operations, we expect that service costs will decrease as a percentage of revenue. We expect with an increase in the proportion of partner and other revenue sources and additional investment in our network, service costs may increase as a percentage of revenue in the near term relative to the most recent quarterly period. We also expect that in the longer term service costs will increase in absolute dollars in connection with any revenue increase as a result of costs associated with the expansion of our operations and network infrastructure as we scale and adapt to increases in the volume of transactions, calls, and traffic and invest in our platforms.

Sales and Marketing. Sales and marketing expenses increased 10% from $11.2 million in 2013 to $12.3 million in 2014. As a percentage of revenue, sales and marketing expenses was 7% for both 2013 and 2014. The

net increase in dollars were primarily a result of higher personnel costs, stock based compensation and fees paid to outside service providers totaling $1.4 million, partially offset by a decrease in online and outside marketing costs. The 2014 percentage of revenue was relatively consistent with the 2013 percentage of revenue.

Sales and marketing expenses decreased 14% from $13.1 million in 2012 to $11.2 million in 2013. As a percentage of revenue, sales and marketing expenses were 10% and 7% for 2012 and 2013, respectively. The net decrease in dollars and percentage of revenue were primarily a result of a decrease in stock based compensation related to the acceleration of certain restricted shares as part of a separation agreement in 2012, online and outside marketing activities, and facility costs totaling $2.3 million offset partially by an increase in personnel costs and depreciation.

We expect some volatility in sales and marketing expenses based on the timing of marketing initiatives but expect sales and marketing expenses in the near term to be modestly higher in absolute dollars. We expect that sales and marketing expenses will increase in connection with any revenue increase to the extent that we also increase our marketing activities and correspondingly could increase as a percentage of revenue.

Product Development. Product development expenses increased 8% from $27.3 million in 2013 to $29.6 million in 2014. The net increase in dollars was primarily due to an increase in personnel costs and stock compensation totaling $2.6 million offset partially by a decrease in fees paid to outside service providers. As a percentage of revenue, product development expenses were 18% and 16% for 2013 and 2014, respectively. The decrease as a percentage of revenue was due to revenues increasing at a faster rate than product development expenses.

Product development expenses increased 18% from $23.2 million in 2012 to $27.3 million in 2013. The net increase in dollars was primarily due to an increase in personnel costs, stock based compensation and fees paid to outside service providers. As a percentage of revenue, product development expenses were 17% and 18% for 2012 and 2013, respectively. The 2013 percentage of revenue was relatively consistent with 2012 percentage of revenue.

In the near term, we expect product development expenditures to be relatively stable or modestly increase in absolute dollars. In the longer term, we expect that product development expenses will increase in absolute dollars as we increase the number of personnel and consultants to enhance our service offerings and as a result of additional stock based compensation expense.

General and Administrative. General and administrative expenses increased 8% from $19.4 million in 2013 to $20.9 million in 2014. The net increase was primarily due to an increase in personnel costs, fees paid to outside service providers, stock based compensation and other operating costs totaling $2.1 million. This increase was partially offset by a decrease in bad debt expense. As a percentage of revenue, general and administrative expenses were 13% and 11% for 2013 and 2014, respectively. The decrease in percentage of revenue was due to revenues increasing at a faster rate than general and administrative expenses.

General and administrative expenses decreased 15%, from $22.8 million in 2012 to $19.4 million in 2013. The net decrease was primarily due to decrease in stock based compensation of $4.9 million offset primarily by an increase in personnel costs, professional fees, bad debt, and other operating expenses. As a percentage of revenue, general and administrative expenses were 17% and 13% for 2012 and 2013, respectively. The decrease in percentage of revenue was primarily as a result of a decrease in stock based compensation and higher revenues compared to 2012.

We expect our general and administrative expenses to be relatively stable or modestly higher in the near term. We expect that our general and administrative expenses will increase in the longer term to the extent that we expand our operations and incur additional costs in connection with being a public company, including expenses related to professional fees and insurance, and 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.

Segment Profit. Call-driven segment profit increased 76% from $6.3 million in 2013 to $11.1 million in 2014. This increase was primarily due to an increase in national advertiser budgets in our pay-for-call services within our Call Marketplace.

Call-driven segment profit increased 24% from $5.1 million in 2012 to $6.3 million in 2013. The increase in profit was due to higher revenues in 2013 as a result of increases in national advertiser budgets and thousands of additional small business accounts utilizing our call analytics platform and operating expenses as a percentage of revenue remaining similar to 2012.

Archeo segment profit decreased 36% from $9.5 million in 2013 to $6.1 million in 2014. The decrease was primarily from lower cost-per-actions revenues from resellers related to our local search and directory web sites, our pay-per-click listings revenue and presence management due to fewer advertisers utilizing our services and lower advertising spend amounts on our pay-per-click listings, which was offset by domain name sales contribution. Domain name sales contribution of $7.4 million was higher for 2014 compared to $6.3 million in 2013, which includes $3.8 million recorded as gain on sales and disposals of intangible asset prior to the Domains Marketplace launch.

Archeo segment profit decreased 35% from $14.6 million in 2012 to $9.5 million in 2013. The decrease was primarily due to lower revenues in our pay-per-click services and proprietary web site traffic sources as a result of decreased revenues for cost-per-actions from resellers related to our local search and directory web sites. In September 2013, we launched our Domains Marketplace, which provides domain names available for sale and initiated plans to facilitate the buying and transacting of domain names. Domain name sales occurring after this launch are recognized as revenue with corresponding costs under service costs. Prior to the launch, domain name transactions were recognized within gain/loss on sale and disposal of intangible assets. Total contribution from domain name sales included in revenue and corresponding service costs and gain/loss on sale and disposal of intangible assets was $6.3 million in both periods.

Amortization of Intangible Assets from Acquisitions. Intangible amortization expense decreased from $2.9 million in 2013 to $434,000 in 2014. The decrease was primarily associated with certain intangible assets related to the April 2011 Jingle acquisition being fully amortized. During 2014, the amortization of intangibles related to service costs.

Our purchase accounting resulted in all assets and liabilities from our acquisitions being recorded at their estimated fair values on their respective acquisition dates. All goodwill, identifiable intangible assets, and liabilities resulting from our acquisitions have been recorded in our financial statements. We may acquire identifiable intangible assets as part of future acquisitions, and if so, we expect that our intangible amortization will increase in absolute dollars.

As of December 31, 2014, our goodwill balances were $63.3 million and $2.4 million in our Call-Driven and Archeo reporting units, respectively. In the third quarter of 2014, we performed impairment testing in accordance with ASC 350 and in light of the macroeconomic and competitive environments, customer changes, lower projected revenue and profitability and a significant decrease in market capitalization at the end of September 2014. We also performed a review on certain of our intangible assets under ASC 360. As a result of this testing, we concluded that there was no impairment of goodwill and intangible assets in the third quarter of 2014. The Company performed its annual impairment testing as of November 30, 2014 and determined that there was no impairment of goodwill and intangible assets during the remainder of 2014.

Events and circumstances considered in determining whether the carrying value of amortizable intangible assets and goodwill may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; 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 our common stock and market

capitalization. If our stock price were to trade below the book value per share for an extended period of time and/or we experience changes in our business, including changes in projected earnings and cash flows, we may have to recognize an impairment of all or some portion of goodwill.

The current business environment is subject to evolving market conditions and requires significant management judgment to interpret the potential impact to our assumptions. At various points in time during the period January 1, 2015 to March 6, 2015, the Company's stock price approached the then book value. To the extent that changes in the current business environment impact the Company's ability to achieve levels of forecasted operating results and cash flows, if the Company's stock price were to trade below book value per share for an extended period of time and/or should other events occur indicating the remaining carrying value of our assets might be impaired, the Company would test its goodwill and intangible assets for impairment and may recognize an impairment loss to the extent that the carrying amount exceeds such asset's fair value. The Company will continue to monitor its financial performance, stock price and other factors in order to determine if there are any indicators of impairment prior to its annual impairment evaluation in November 2015.

Acquisition and separation related costs. Acquisition and separation related costs of ($68,000) benefit related to a revision in our original estimates regarding the future obligation related to the Jingle office space. Acquisition and separation related costs of $878,000 in 2013 and $753,000 in 2012 were primarily for professional fees and other procedures associated with our proposed separation of our business into two distinct publicly traded companies. Costs for 2012 are net of a $132,000 benefit related to a revision in our original estimates regarding the future obligation related to the Jingle office space.

Impairment of goodwill. We perform our annual impairment testing in accordance with the Accounting Standards Codification 350, *Intangibles—Goodwill and Other* on November 30. No impairment was identified in 2014 and 2013.

In 2012, we recorded a $15.8 million non-cash impairment charge on goodwill within the Archeo reporting unit, net of $902,000 classified to discontinued operations as part of the sale of certain pay per click assets in July 2013. During the fourth quarter of 2012, we announced our intention to pursue a spin-off of Archeo and the corresponding organizational changes, resulted in a change to our reporting units for purposes of assessing potential impairment of goodwill. The estimated fair value of the Archeo reporting unit was based on the estimates of future operating results, discounted cash flows and other market-based factors. The goodwill impairment recorded within the Archeo reporting unit resulted from the newly associated amounts of goodwill allocated upon the commencement of the reporting unit designation in the fourth quarter of 2012, and the operating results including lower projected revenue growth rates and profitability levels compared to historical results.

Gain on sales and disposals of intangible assets, net. The gain on sales and disposals of intangible assets, net was $3.8 million in 2013 and was attributable to the sales and disposals of Internet domain names and other intangible assets. In September 2013, we launched Domains Marketplace which provides domain names available for sale and facilitates the buying and transacting of domain names. During 2013, approximately $2.5 million of domain name sales were recognized as revenue after the launch date and future domain name sales will be recognized as revenue. The domain name sales transactions for the years ended December 31, 2013 and 2014 were $6.3 million and $7.4 million, respectively. The increase in domain name sales was primarily due to an increase in number of domain names sold in 2014 compared to 2013.

The gain on sales and disposals of intangible assets, net was $6.3 million in 2012 compared to $3.8 million in 2013 and was attributable to the sales and disposals of Internet domain names and other intangible assets. The decrease was primarily due to recognition of domain name sales in revenue after the launch of our Domains Marketplace in September 2013. Domains Marketplace provides domain names available for sale and facilitates the buying and transacting of domain names. During 2013, approximately $2.5 million of domain name sales were recognized as revenue after the launch date and future domain name sales will be recognized as revenue.

Other income (expense), net. Other income (expense), net was ($37,000) and ($62,000) in 2013 and 2014, respectively.

Other income (expense), net were ($449,000) and ($37,000) in 2012 and 2013, respectively. The net decrease in other income (expense), net during 2013 was primarily due to the Jingle deferred acquisition consideration paid in 2012, which resulted in no interest accretion in 2013.

Income Taxes. The income tax expense in 2014 was $24.3 million. In 2014, the effective rate of 495% differed from the effective tax rate of 34% due primarily to an increase in the valuation allowance of $22.3 million recorded in the third quarter of 2014 and to a lesser extent due to state income taxes, non-deductible stock-based compensation related to incentive stock options under the fair-value method, federal research and development credits, and other non-deductible amounts.

At December 31, 2014, based upon both positive and negative evidence available, the Company determined that it is not more likely than not that its deferred tax assets of $44.8 million will be realized and accordingly, the Company has recorded 100% valuation allowance of $44.8 million against these deferred tax assets. During the third quarter of 2014, the valuation allowance increased by $22.3 million resulting in a corresponding income tax expense of $22.3 million. In assessing the realizability of deferred tax assets, the Company 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. The Company considered the future reversal of deferred tax liabilities, carryback potential, projected taxable income, and tax planning strategies as well as its history of taxable income or losses in the relevant jurisdictions in making this assessment. The Company incurred taxable losses in 2012, 2013, and 2014 of $3.5 million, $7.6 million, and $10.5 million, respectively. During the third quarter of 2014, a significant customer cancelled its arrangement with the Company resulting in lower projected revenue and profitability. 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, the Company concluded that it is not more likely than not that the gross deferred tax assets will be realized.

We also recognized approximately $547,000 of federal research and experimental credits as a result of the retroactive extension of the federal research and experimental credit for the period January 1, 2014 to December 31, 2014 as part of the Tax Increase Prevention Act of 2014 signed into law in December 2014.

The income tax expense in 2013 was $1.8 million. In 2013, the effective tax rate of 65% differed from the expected effective tax rate of 34% due to state income taxes, non-deductible stock-based compensation related to incentive stock options recorded under the fair-value method, federal research and development credits, increase in valuation allowance and other non-deductible amounts. We recognized approximately $851,000 of federal research and experimental credits related to 2012 and 2013 during 2013 due to the reinstatement of the federal research and development credit in January 2013 as part of the 2012 American Taxpayer Relief Act. This resulted in an increase in our gross deferred tax assets, which was offset by an increase to our valuation allowance of $651,000 in 2013.

The income tax expense in 2012 was $16.6 million. In 2012, the effective tax rate of (94%) differed from the expected effective tax rate of 34% due primarily to establishment of a partial valuation allowance on our federal deferred tax assets, non-deductible goodwill impairment and other items such as state income taxes, non-deductible stock-based compensation related to incentive stock options recorded under the fair-value method, non-cash accretion of interest expense, and other non-deductible amounts. At the end of the fourth quarter of 2012, we recognized a partial valuation allowance of $16.4 million on our federal deferred tax assets. 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 our industry, existing contracts, our ability to project future results and any appreciation of our other assets.

During 2012, 2013 and 2014, we recognized excess tax benefits (shortfalls) on stock option exercises, restricted stock vesting, and dividends paid on unvested restricted stock of approximately ($4.0) million, ($76,000) and ($1.2) million respectively, which were recorded to additional paid in capital.

Discontinued Operations, net of tax. In July 2013, we sold certain assets related to Archeo's pay per click advertising services. As a result, the operating results related to these certain pay per click assets are shown as discontinued operations. See *Note 12. Discontinued Operations* for further discussion. Discontinued operations, net of tax in 2012 was a loss of ($938,000) which includes a goodwill impairment of $902,000, in 2013 was income of $860,000 which includes $930,000 in gain on sale, net of tax from the sale of certain pay-per-click assets and in 2014 was income of $287,000 primarily as a result of a gain on sale, net of tax associated with the receipt of an earn-out consideration.

Net Income (Loss). Net income was $1.8 million in 2013 compared to a net loss of ($19.1) million in 2014. The decrease in net income was primarily a result of an increase to our valuation allowance of $22.3 million offset partially by an incremental increase in contribution due to an increase in revenues. Net loss was $35.2 million in 2012 compared to net income of $1.8 million in 2013. The increase in net income in 2013 was primarily a result of non-cash charges related to goodwill impairment and valuation allowance totaling $33.1 million in 2012, a decrease in stock based compensation and amortization of acquired intangible assets, and an increase in revenue offset by an increase in operating expenses.

Quarterly Results of Operations (Unaudited)

The following tables set forth our unaudited quarterly results of operations data for the eight most recent quarters ended December 31, 2014. The information in the tables below should be read in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this report. We have prepared this information on the same basis as the consolidated financial statements and the information includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair statement of our financial position and operating results for the quarters or other periods presented. Our quarterly operating results have varied substantially in the past and may vary substantially in the future. You should not draw any conclusions about our future results from the results of operations for any particular quarter or period presented.

	Quarter Ended							
(in thousands)	Mar 31, 2013	June 30, 2013	Sept 30, 2013	Dec 31, 2013	Mar 31, 2014	June 30, 2014	Sept 30, 2014	Dec 31, 2014
Consolidated Statement of Operations:								
Revenue	$34,732	$37,578	$40,560	$39,680	$50,496	$49,676	$ 49,181	$33,291
Expenses:								
Service costs (1)	20,148	22,584	25,293	23,833	32,354	32,319	32,055	17,853
Sales and marketing (1)	2,644	2,905	2,801	2,832	3,382	2,839	2,940	3,090
Product development	6,808	6,945	6,833	6,760	7,560	7,458	7,581	6,962
General and administrative	4,797	5,527	4,679	4,382	5,361	5,386	5,380	4,796
Acquisition and separation related costs	345	309	286	(62)	—	(68)	—	—
Amortization of intangible assets from acquisitions (2)	1,055	736	709	426	403	31	—	—
Total operating expenses	35,797	39,006	40,601	38,171	49,060	47,965	47,956	32,701
Gain on sales and disposals of intangible assets, net	1,362	1,330	1,047	35	—	—	—	—
Income (loss) from operations	297	(98)	1,006	1,544	1,436	1,711	1,225	590
Other income (expense):								
Interest income	3	7	3	2	—	1	—	1
Interest and line of credit expense	(19)	(19)	(20)	(18)	(19)	(19)	(19)	(19)
Other	(1)	—	(2)	27	17	(4)	—	(2)
Total other income (expense)	(17)	(12)	(19)	11	(2)	(22)	(19)	(20)
Income (loss) from continuing operations before provision for income taxes	280	(110)	987	1,555	1,434	1,689	1,206	570
Income tax expense (benefit)	165	243	389	958	588	709	22,980	0
Net income (loss) from continuing operations	115	(353)	598	597	846	980	(21,774)	570
Discontinued operations, net of tax	(31)	—	883	8	9	—	278	—
Net income (loss)	84	(353)	1,481	605	855	980	(21,496)	570
Dividends paid to participating securities	—	—	—	—	(36)	(33)	(29)	(28)
Net income (loss) applicable to common stockholders	$ 84	$ (353)	$ 1,481	$ 605	$ 819	$ 947	$(21,525)	$ 542

(1) Excludes amortization of intangible assets from acquisitions. Certain reclassifications have been made to prior periods to conform to current period presentation.

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

Service costs	$ 748	$429	$402	$402	$403	$ 31	$—	$ —
Sales and marketing	307	307	307	24	—	—	—	—
Total	$1,055	$736	$709	$426	$403	$ 31	$—	$ —

Certain reclassifications have been made to prior periods to conform to current period presentation.

Due to rounding, the sum of quarterly amounts may not equal amounts reported for year-to-date periods.

Liquidity and Capital Resources

As of December 31, 2013 and 2014, we had cash and cash equivalents of $30.9 million and $80.0 million, respectively. As of December 31, 2014, we had current and long term contractual obligations of $11.5 million, of which $7.5 million is for rent under our facility operating leases.

Cash provided by operating activities primarily consists of net income (loss) adjusted for certain non-cash items such as amortization and depreciation, deferred income taxes, stock-based compensation, excess tax benefit related to stock-based compensation, acquisition and separation related costs, gain on sale of intangible assets, net, gain on sale of discontinued operations, impairment of goodwill and changes in working capital.

Cash provided by operating activities for the year ended December 31, 2014 of approximately $22.4 million consisted primarily of net loss of $19.1 million adjusted for non-cash items of $41.9 million, including amortization and depreciation, allowance for doubtful accounts and advertiser credits, stock-based compensation, and deferred income taxes that includes a $22.3 million increase in the valuation allowance, $422,000 of gain on sale of discontinued operations, and $72,000 provided by working capital and other activities. Cash provided by operating activities for the year ended December 31, 2013 of approximately $13.6 million consisted primarily of net income of $1.8 million adjusted for non-cash items of $19.6 million, including amortization and depreciation, amortization of intangible assets, allowance for doubtful accounts and advertiser credits, stock-based compensation, and deferred income taxes, $1.5 million of gain on sale of discontinued operations, $3.8 million gain on sales and disposals of intangible and fixed assets, net and $2.5 million provided by working capital and other activities.

With respect to a significant portion of our pay-for call and pay-per-click advertising services, the amount payable to the distribution partners will be calculated at the end of a calendar month, with a payment period following the delivery of the phone calls or click-throughs. These services constituted the majority of revenue in 2012, 2013 and 2014. We generally receive payment from advertisers in close proximity to the timing of the corresponding payments to the distribution partners who provide placement for the listings. In certain cases, payments to distribution partners are paid in advance or are fixed in advance based on a guaranteed minimum amount of usage delivered. We have no corresponding payments to distribution partners related to certain of our other revenue sources including our proprietary web site traffic revenues.

Nearly all of the reseller partner arrangements are billed on a monthly basis following the month of our phone call or click-through delivery. This payment structure results in our advancement of monies to the distribution partners who have provided the corresponding placements of the listings. For these services, reseller partner payments are generally received two to four weeks following payment to the distribution partners. We expect that in the future periods, if the amounts from our reseller partner arrangements account for a greater percentage of our operating activity, working capital requirements will increase as a result.

We have payment arrangements with reseller partners particularly related to our proprietary web site traffic sources or our local leads and call analytics services, such as YP, SuperMedia Inc., hibu, The Cobalt Group, and Yellow Media Inc., whereby we receive payment between 30 and 60 days following the delivery of services. We also have payment arrangements with advertising agencies particularly related to our Call Marketplace product, such as Resolution Media, whereby we receive payment when the agency's advertiser pays the agency, which is between 60 and 90 days following the delivery of services. For the year ended and as of December 31, 2014 amounts from these partners and agency totaled 37% of revenue and $16.1 million in accounts receivable. Based on the timing of payments, we generally have this level of amounts in outstanding accounts receivable at any given time from these partners and advertising agency. In July 2013, we amended our arrangement with YP, which lowered certain agency fees beginning July 1, 2013 through June 2015. We also extended a separate pay-for-call relationship through June 2015 with YP within our Call Marketplace. We also have a separate distribution partner agreement with YP. There can be no assurance that our business with them in the future will continue at or near current revenue and contribution levels, that we will be able to renew and extend the contracts set to expire in June 2015, and if renewed, the contracts may be on less favorable terms to us, any of which could

have a material adverse effect on our future operating results. Net accounts receivable balances outstanding at December 31, 2014 from YP totaled $10.7 million. For the year ended December 31, 2014, amounts from these partners and advertising agency along with Allstate totaled 64% of revenue in which substantially all of the revenues from Allstate was generated during the nine months ended September 30, 2014. In September 2014, Allstate ceased purchases of the pay-for-call services. We do not expect Allstate will purchase additional pay-for-call services in the foreseeable future, which is anticipated to have a material adverse effect on our future operating results and expect the call analytics service relationship with Allstate, which provides a small, non-material financial contribution to our future operating results, to cease in the first quarter of 2015.

We have revenue concentrations with certain large advertisers and advertising agencies and most of these customers are not subject to long term contracts with us and are generally able to reduce or cease advertising spending at any time and for any reason. A significant reduction in advertising spending by our largest customers, or the loss of one or more of these customers, if not replaced by new customers or an increase in business from existing customers, would adversely affect revenues and profitability. This could have a material adverse effect on our results of operations and financial condition. There can be no assurances that these partners or other advertisers will not experience financial difficulty, curtail operations, reduce or eliminate spend budgets, delay payments or otherwise forfeit balances owed.

In September 2013, we launched our Domains Marketplace that provides domain names available for sale and facilitates the buying and transacting of domain names. Approximately $7.3 million of domain name sales were recognized as revenue for the year ended December 31, 2014.

Cash used in investing activities for the year ended December 31, 2014 of $3.2 million was primarily attributable to purchases of property and equipment of $3.3 million and purchases of intangible and noncurrent assets of primarily domain names of $217,000, that were partially offset by proceeds from the sale of discontinued operations of $304,000 related to an earn-out consideration payment from the July 2013 sale of certain pay-per-click advertising services. Cash provided by investing activities for the year ended December 31, 2013 of approximately $1.6 million was primarily attributable to purchases for property and equipment of $3.0 million, which were more than offset by proceeds from the sales of intangible assets of approximately $3.8 million and proceeds from sale of discontinued operations of $1.1 million. Cash used in investing activities for the year ended December 31, 2012 of approximately $3.3 million was primarily attributable to purchases for property and equipment of $2.9 million, which were more than offset by proceeds from the sales of intangible assets of approximately $6.3 million. In April 2011, we acquired Jingle in which $15.8 million, net of cash acquired, was paid at closing. The acquisition included deferred acquisition payments, net of certain working capital and other adjustments, totaling $33.9 million, which were paid in cash in 2012 and are shown as financing activities.

We expect property and equipment purchases will increase as we continue to invest in equipment and software. To the extent our operations increase, we expect to increase expenditures for our systems and personnel. We expect our expenditures for product development initiatives and internally developed software will increase in the longer term in absolute dollars as our development activities accelerate and we increase the number of personnel and consultants to enhance our service offerings.

Cash provided by financing activities for the year ended December 31, 2014 of approximately $29.8 million was primarily attributable to proceeds from a follow-on offering, net of offering costs paid, of $32.5 million and proceeds from employee stock option exercises and employee stock purchase plan of $4.3 million, which was partially offset by payment of common stock dividends, minimum tax withholding payments related to certain executive restricted stock award vests, and the repurchase of 669,000 shares of Class B common stock for treasury all totaling approximately $6.9 million. In April 2014, we completed a follow-on public offering in which we sold an aggregate of 3.4 million shares of our Class B common stock, which includes the exercise of the underwriters' option to purchase 514,100 additional shares, at a public offering price of $10.50 per share. In addition, another 3.2 million shares were sold by the selling stockholders, which include the exercise of the underwriter's option to purchase 343,000 additional shares. Our aggregate net proceeds of $32.5 million are after

deducting underwriting discounts and commissions and offering expenses paid. We did not receive any of the proceeds from the sales of shares by the selling stockholders. Cash used in financing activities for the year ended December 31, 2013 was $261,000 and was primarily comprised of tax withholding payment of approximately $3.2 million related to certain executive vested restricted stock awards partially offset by proceeds from exercises of stock options of $2.9 million. Cash used in financing activities for the year ended December 31, 2012 of approximately $44.7 million was primarily attributable to the cash payments of the 12-month and 18-month deferred acquisition payments related to the April 2011 Jingle acquisition totaling $33.9 million, which is net of certain working capital and other adjustments. The deferred acquisition payments exclude the interest accretion of $881,000 that is shown as an operating cash outflow. Other financing activities include the repurchase of 387,000 shares of Class B common stock for treasury stock totaling approximately $1.7 million and common stock dividend payments of $9.4 million, partially offset by net proceeds of approximately $71,000 from the sale of stock through employee stock options and employee stock plan purchases and $308,000 from excess tax benefit related to stock-based compensation. The dividend payments in 2012 include the December 2012 board of directors' declaration of quarterly dividends for the first, second, third, and fourth quarters of 2013 totaling $5.3 million, which was paid on December 31, 2012.

The following table summarizes our contractual obligations as of December 31, 2014, and the effect these obligations are expected to have on our liquidity and cash flows in future periods.

In thousands	Total	Less than 1 year	1-3 years	4-5 years	thereafter
Contractual Obligations:					
Operating leases	$ 7,534	$ 2,271	$ 4,686	$ 577	$ —
Other contractual obligations	3,927	2,496	1,431	—	—
Total contractual obligations (1),(2)	$11,461	$ 4,767	$ 6,117	$ 577	$ —

(1) In February 2005 we entered into a license agreement with an advertising partner which provides for a contingent royalty based on a discounted rate of 3% (3.75% under certain circumstances) of certain of our gross revenues payable on a quarterly basis through December 2016. The royalty payment is recognized as incurred in service costs and is not included in the above schedule.

(2) Our tax contingencies of approximately $717,000 are not included due to their uncertainty.

We anticipate that we will need to invest working capital towards the development and expansion of our overall operations. We may also make a significant number of acquisitions, which could result in the reduction of our cash balances or the incurrence of debt. Furthermore, we expect that capital expenditures may increase in future periods, particularly if our operating activity increases.

As of December 31, 2014, we have a credit agreement which provides us with a $30 million senior secured revolving credit line, which may be used for various corporate purposes including financing permitted acquisitions, subject to compliance with applicable covenants. As of December 31, 2014, we had $30 million of availability under the credit agreement. The credit agreement matures in April 2017.

In November 2006, our board of directors authorized a share repurchase program (the "2006 Repurchase Program") to repurchase up to 3 million shares of our Class B common stock as well as the initiation of a quarterly cash dividend for the holders of the Class A common stock and Class B common stock. Our board of directors have authorized increases in the share repurchase program to provide for the repurchase of up to 13 million shares in the aggregate (less shares previously purchased under the share repurchase program) of our Class B common stock. During the years ended December 31, 2012 and 2013, approximately 387,000 and 31,000 shares of Class B common stock, respectively, were repurchased under the 2006 Repurchase Program. No shares were repurchased under the 2006 Repurchase Program in the year ended December 31, 2014.

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. 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. During the year ended December 31, 2014, approximately 669,000 shares of Class B common stock was repurchased under the 2014 Repurchase Program.

In 2012, quarterly dividends of $0.02 per share were paid on February 15, May 16 and August 15 to Class A and Class B common stockholders of record. In August 2012, our board of directors approved an increase to the quarterly cash dividend on the Class A and Class B common stock, subject to capital availability, from $0.02 per share to $0.035 per share. The increase in the dividend raised the annual dividend rate to $0.14 per share or approximately $5.3 million. We paid the incremental $0.015 per share dividends on August 31, 2012. In December 2012, our board of directors declared a quarterly dividend for the first, second, third and fourth quarters of 2013 totaling $0.14 per share on its Class A common stock and Class B common stock, which was paid on December 31, 2012. The dividend paid totaled $5.3 million. Total dividends paid in 2012 were $9.4 million, which includes the 2013 dividends accelerated into 2012.

In 2014, quarterly dividends of $0.02 per share were paid on February 18, May 15, August 15 and November 18. Total dividends paid in 2014 were $3.3 million. Although we expect that the annual cash dividend, subject to capital availability, will be $0.08 per common share or approximately $3.4 million for the foreseeable future, there can be no assurance that we will continue to pay dividends at such a rate or at all.

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

Critical Accounting Policies

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

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

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

- Revenue;
- Goodwill and intangible assets;
- Stock-based compensation;

- Allowance for doubtful accounts and advertiser credits; and
- Provision for income taxes.

Revenue

We currently generate revenue through our operating businesses by delivering call and click-based advertising products that enable advertisers of all sizes to reach consumers across online, mobile and offline sources. Our primary source of revenue is performance-based advertising, which includes pay-for-call advertising, pay-per-click advertising, and cost-per-action services. For pay-for-call and pay-per-click advertising, revenue is recognized upon delivery of qualified and reported phone calls or click-throughs to our advertisers or advertising service providers' listing which occurs when a mobile, online or offline user makes a phone call or clicks on any of their advertisements after it has been placed by us or by our distribution partners. Each phone call or click-through on an advertisement listing represents a completed transaction. For cost-per-action services, revenue is recognized when a user makes a phone call from our advertiser's listing or is redirected from one of our web sites or a third party web site in our distribution network to an advertiser web site and completes the specified action. In certain cases, we record revenue based on available and reported preliminary information from third parties. Collection on the related receivables may vary from reported information based upon third party refinement of the estimated and reported amounts owing that occurs subsequent to period ends.

We have entered into agreements with various distribution partners in order to expand our distribution network, which includes search engines, directories, product shopping engines, third party vertical and branded Web sites, mobile and offline sources, and our portfolio of owned Web sites, on which we include our advertisers' listings. We generally pay distribution partners based on a specified percentage of revenue or a fixed amount per phone call or click-through on these listings. We act as the primary obligor in these transactions, and we are responsible for providing customer and administrative services to the advertiser. In accordance with FASB ASC 605, the revenue derived from advertisers who receive paid introductions through us as supplied by distribution partners is reported gross based upon the amounts received from the advertiser. We also recognize revenue for certain agency contracts with advertisers under the net revenue recognition method. Under these specific agreements, we purchase listings on behalf of advertisers from search engines and directories. We are paid account fees and also agency fees based on the total amount of the purchase made on behalf of these advertisers. Under these agreements, our advertisers are primarily responsible for choosing the publisher and determining pricing, and we in certain instances, are only financially liable to the publisher for the amount collected from our advertisers. This creates a sequential liability for media purchases made on behalf of advertisers. In certain instances, the web publishers engage the advertisers directly and we are paid an agency fee based on the total amount of the purchase made by the advertiser. In limited arrangements, resellers pay us a fee for fulfilling an advertiser's campaign in our distribution network and we act as the primary obligor. We recognize revenue for these fees under the gross revenue recognition method.

On September 10, 2013, we launched our Domains Marketplace, which provides domain names available for sale and initiated plans to facilitate the active buying and transacting of domain names. Domain name sales occurring after this launch have been recognized as revenue in the consolidated financial statements. Historically, the sale of domain names were not a core operation and were peripheral to the generation of advertising revenue from domain names held for use and as such domain name sales were reported as gains on sales and disposals of intangible assets, net in the consolidated financial statements.

We apply FASB ASC 605 to account for revenue arrangements with multiple deliverables. FASB ASC 605 addresses certain aspects of accounting by a vendor for arrangements under which the vendor will perform multiple revenue-generating activities. When an arrangement involves multiple deliverables, the entire fee from the arrangement is allocated to each respective deliverable based on its relative selling price and recognized when revenue recognition criteria for each deliverable are met. The selling price for each deliverable is established based on the sales price charged when the same deliverable is sold separately, the price at which a third party sells the same or similar and largely interchangeable deliverable on a standalone basis or the estimated selling price if the deliverable were to be sold separately.

Goodwill and Intangible Assets

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

We apply the provisions of FASB ASC 350 "*Goodwill and Intangible Assets*" whereby assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. FASB ASC 350 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with FASB ASC 360.

Goodwill is tested annually for impairment and is tested for impairment more frequently if events and circumstances indicate that the asset 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 the two-step quantitative goodwill impairment test. Events and circumstances considered in determining whether the carrying value of goodwill may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; 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. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. If the fair value is lower than the carrying value, a material impairment charge may be reported in our financial results. We exercise judgment in the assessment of the related useful lives of intangible assets, the fair values, and the recoverability. In certain instances, the fair value is determined in part based on cash flow forecasts and discount rate estimates. We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. To the extent such evaluation indicates that the useful lives of intangible assets are different than originally estimated, the amortization period is reduced or extended and, accordingly, amortization expense is increased or decreased. Recoverability of assets held and used is measured by a comparison of the carrying amount of an asset group to estimated undiscounted future cash flows expected to be generated by the asset group. If such asset group is considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the assets exceeds fair value. Assets to be disposed of are separately presented on the balance sheet and reported at the lower of their carrying amount or fair value less costs to sell, and are no longer depreciated. We cannot accurately predict the amount and timing of any impairment of goodwill or other intangible assets. Should the value of goodwill or other intangible assets become impaired, we would record the appropriate charge, which could have an adverse effect on our financial condition and results of operations.

We review goodwill for impairment annually on November 30 and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. During the three months ended September 30, 2014, we performed impairment testing in accordance with ASC 350 in light of the macroeconomic and competitive environments, customer changes, lower projected revenue and profitability and a significant decrease in our market capitalization in September 2014. We also performed a review of our intangible assets under ASC 360. The estimated fair values of our reporting units were based on estimates of future operating results, discounted cash flows and other market-based factors. As a result of this testing, we concluded that there was no impairment of goodwill and intangible assets during the three months ended September 30, 2014. We performed the annual impairment testing as of November 30, 2014 and determined that there was no impairment of goodwill and intangible assets during the remainder of 2014.

The current business environment is subject to evolving market conditions and requires significant management judgment to interpret the potential impact to our assumptions. At various points in time during the

period January 1, 2015 to March 6, 2015, the Company's stock price approached the then book value. To the extent that changes in the current business environment impact the Company's ability to achieve levels of forecasted operating results and cash flows, if the Company's stock price were to trade below book value per share for an extended period of time and/or should other events occur indicating the remaining carrying value of our assets might be impaired, the Company would test its goodwill and intangible assets for impairment and may recognize an impairment loss to the extent that the carrying amount exceeds such asset's fair value. The Company will continue to monitor its financial performance, stock price and other factors in order to determine if there are any indicators of impairment prior to its annual impairment evaluation in November 2015.

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

Stock-Based Compensation

FASB 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. Under the fair value recognition provisions, we recognize stock-based compensation net of an estimated forfeiture rate, and therefore only recognize compensation cost for those shares expected to vest over the requisite service period.

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. For stock-based awards with time-based vesting, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. We estimate the forfeiture rate based on historical experience of our stock-based awards that are granted, exercised and cancelled. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period.

During 2012 and 2013, we issued equity awards of stock options and restricted stock awards that have vesting based on a combination of certain service and market conditions. For equity awards with vesting based on a combination of certain service and market conditions, we factor an estimated probability of achieving certain service and market conditions and recognize compensation cost over the requisite service period of the award. We use a binomial lattice model to determine the fair value for each tranche and a Monte Carlo simulation to determine the derived service period for each tranche.

Although the fair value of stock-based awards is determined in accordance with FASB ASC 718, the assumptions used in calculating fair value of stock-based awards, the use of the Black-Scholes option pricing model, and the use of the binomial lattice model and a Monte Carlo simulation are highly subjective, and other reasonable assumptions could provide differing results. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. See *Note 6(b) Stock Option Plan* in the consolidated financial statements for additional information.

FASB ASC 718 requires the benefits of tax deductions in excess of the stock-based compensation cost to be classified as financing cash inflows. In addition, a tax benefit and a credit to additional paid-in capital for the excess deductions is not recognized until that deduction reduces taxes payable. For the year ended December 31, 2014, we incurred an excess tax benefit which was not recorded because we are in a cumulative loss carryforward position for income taxes.

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.

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. In 2014, we adopted ASU 2013-11 whereby we reclassified uncertain tax positions of $534,000 from other non-current liabilities to deferred tax assets.

At December 31, 2014, based upon both positive and negative evidence available, the Company determined that it is not more likely than not that its deferred tax assets of $44.8 million will be realized and accordingly, the Company has recorded 100% valuation allowance of $44.8 million against these deferred tax assets. During the third quarter of 2014, the valuation allowance increased by $22.3 million resulting in a corresponding income tax expense of $22.3 million. In assessing the realizability of deferred tax assets, the Company 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. The Company considered the future reversal of deferred tax liabilities, carryback potential, projected taxable income, and tax planning strategies as well as its history of taxable income or losses in the relevant jurisdictions in making this assessment. The Company incurred taxable losses in 2012, 2013, and 2014 of $3.5 million, $7.6 million, and $10.5 million, respectively. During the third quarter of 2014, a significant customer cancelled its arrangement with the Company resulting in lower projected revenue and profitability. 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, the Company concluded that it is not more likely than not that the gross deferred tax assets will be realized.

At December 31, 2013 and 2014, based upon both positive and negative evidence available, the Company has determined it is not more likely than not that certain deferred tax assets primarily relating to NOL carryforwards in certain state, city, and foreign jurisdictions will be realizable and accordingly, recorded a 100% valuation allowance of $6.0 million and $6.0 million against these deferred tax assets, respectively. The Company does not have a history of taxable income in the relevant jurisdictions and the state and foreign NOL carryforwards will more likely than not expire unutilized. Should the Company determine in the future that all or part of the deferred assets will be realized, a tax benefit will be recorded accordingly in the period such determination is made.

As of December 31, 2014, the Company's federal NOL carryforwards excluding those acquired were approximately $21.6 million for income tax purposes, which will begin to expire in 2032. In connection with the 2011 Jingle acquisition, the Company acquired federal NOL carryforwards of $4.4 million, which begin to expire in 2026. As of December 31, 2014, the Company's state and city NOL carryforwards were approximately $6.0 million, which begin to expire in 2025.

In addition, at December 31, 2013 and 2014, the Company had certain federal net operating loss carryforwards of approximately $1.7 million, which begin to expire in 2019. The Tax Reform Act of 1986 limits the use of NOL and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. The Company believes that such a change has occurred related to these specific NOL carryforwards, and that the utilization of the approximately $1.7 million in carryforwards is limited such that substantially all of these NOL carryforwards will never be utilized. Accordingly, the Company has not included these federal NOL carryforwards in its deferred tax assets.

Recent Accounting Pronouncement Not Yet Effective

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606) (ASU 2014-09)*, which amends the existing accounting standards for revenue recognition. ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled when products or services are transferred to customers. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. ASU 2014-09 may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. We are currently in the process of evaluating the impact of adoption of ASU 2014-09 on our consolidated financial statements.

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

Our exposure to market risk is limited to interest income sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because the majority of our investments are in short-term, money market funds. We place our investments with high-quality financial institutions. During the years ended December 31, 2013 and 2014, the effects of changes in interest rates on the fair market value of our investments and our earnings were not material. Further, we believe that the impact on the fair market value of our investments and our earnings from a hypothetical 10% change in interest rates would not be significant. We do not have any material foreign currency or other derivative financial instruments.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Marchex, Inc.:

We have audited the accompanying consolidated balance sheets of Marchex, Inc. and subsidiaries (the Company) as of December 31, 2013 and 2014, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Marchex, Inc. and subsidiaries as of December 31, 2013 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 10, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Seattle, Washington
March 10, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Marchex, Inc.:

We have audited Marchex, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Marchex, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Marchex, Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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.

In our opinion, Marchex, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Marchex, Inc. and subsidiaries as of December 31, 2013 and 2014, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated March 10, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Seattle, Washington
March 10, 2015

MARCHEX, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except per share amounts)

	As of December 31, 2013	2014
Assets		
Current assets:		
Cash and cash equivalents	$ 30,912	$ 80,032
Accounts receivable, net	30,005	25,941
Prepaid expenses and other current assets	2,943	3,143
Refundable taxes	97	131
Deferred tax assets	1,016	—
Total current assets	64,973	109,247
Property and equipment, net	5,440	5,430
Deferred tax assets	25,138	—
Intangible and other assets, net	484	313
Goodwill	65,679	65,679
Intangible assets from acquisitions, net	434	—
Total assets	$ 162,148	$ 180,669
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 15,922	$ 13,766
Accrued expenses and other current liabilities	7,988	7,515
Deferred revenue	1,388	2,117
Total current liabilities	25,298	23,398
Other non-current liabilities	2,095	1,118
Total liabilities	27,393	24,516
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.01 par value. Authorized 137,500 shares;		
Class A: 12,500 shares authorized; 8,032 and 7,770 shares issued and outstanding, respectively, at December 31, 2013; 8,032 and 5,233 shares issued and outstanding, respectively, at December 31, 2014	80	55
Class B: 125,000 shares authorized; 30,879 and 30,720 shares issued and outstanding, respectively, at December 31, 2013, including 1,844 shares of restricted stock; and 37,271 and 36,817 shares issued and outstanding, respectively, at December 31, 2014, including of 1,006 shares of restricted stock	309	373
Treasury stock: 159 and 454 shares of Class B stock at December 31, 2013 and 2014, respectively	(2)	(2,503)
Additional paid-in capital	305,517	348,467
Accumulated deficit	(171,149)	(190,239)
Total stockholders' equity	134,755	156,153
Total liabilities and stockholders' equity	$ 162,148	$ 180,669

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,		
	2012	2013	2014
Revenue	$ 132,794	$ 152,550	$ 182,644
Expenses:			
Service costs (1)	75,920	91,858	114,581
Sales and marketing (1)	13,057	11,182	12,251
Product development	23,200	27,346	29,561
General and administrative (1)	22,838	19,385	20,923
Amortization of intangible assets from acquisitions (2)	4,728	2,926	434
Acquisition and separation related costs	753	878	(68)
Total operating expenses	140,496	153,575	177,682
Impairment of goodwill	(15,837)	—	—
Gain on sales and disposals of intangible assets, net	6,296	3,774	—
Income (loss) from operations	(17,243)	2,749	4,962
Other income (expense):			
Interest income	14	15	2
Interest and line of credit expense	(438)	(76)	(76)
Other, net	(25)	24	12
Total other income (expense)	(449)	(37)	(62)
Income (loss) from continuing operations before provision for income taxes	(17,692)	2,712	4,900
Income tax expense	16,566	1,755	24,277
Net income (loss) from continuing operations	(34,258)	957	(19,377)
Discontinued operations:			
Income (loss) from discontinued operations, net of tax	(938)	(70)	9
Gain on sale of discontinued operations, net of tax	—	930	278
Discontinued operations, net of tax	(938)	860	287
Net income (loss)	(35,196)	1,817	(19,090)
Dividends paid to participating securities	(657)	—	(127)
Net income (loss) applicable to common stockholders	$ (35,853)	$ 1,817	$ (19,217)
Basic and diluted net income (loss) per Class A share applicable to common stockholders:			
Continuing operations	$ (1.03)	$ 0.03	$ (0.49)
Discontinued operations, net of tax	$ (0.03)	$ 0.02	$ 0.01
Basic and diluted net income (loss) per Class A share applicable to common stockholders	$ (1.06)	$ 0.05	$ (0.48)
Basic and diluted net income (loss) per Class B share applicable to common stockholders:			
Continuing operations	$ (1.02)	$ 0.03	$ (0.49)
Discontinued operations, net of tax	$ (0.03)	$ 0.02	$ 0.01
Basic and diluted net income (loss) per Class B share applicable to common stockholders	$ (1.05)	$ 0.05	$ (0.48)
Dividends paid per share	$ 0.25	$ —	$ 0.08
Shares used to calculate basic net income (loss) per share applicable to common stockholders:			
Class A	9,574	8,816	5,853
Class B	24,412	26,798	34,157
Shares used to calculate diluted net income (loss) per share applicable to common stockholders:			
Class A	9,574	8,816	5,853
Class B	33,986	36,999	40,010
(1) Excludes amortization of intangible assets from acquisitions.			
(2) Components of amortization of intangible assets from acquisitions:			
Service costs	$ 3,484	$ 1,981	$ 434
Sales and marketing	1,228	945	—
General and administrative	16	—	—
Total	$ 4,728	$ 2,926	$ 434

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			
Balances at December 31, 2011	9,632	$ 99	28,074	$ 281	(157)	$ (1,067)	$ 297,465	$ (137,770)	$ 159,008
Issuance of common stock upon exercise of stock options	—	—	6	—	—	—	27	—	27
Income tax shortfall of option exercises and restricted stock vesting, net	—	—	—	—	—	—	(4,006)	—	(4,006)
Issuance of common stock under employee stock purchase plan	—	—	10	—	—	—	36	—	36
Issuance of restricted stock	—	—	1,484	15	—	—	—	—	15
Tax withholding related to restricted stock awards	—	—	(7)	—	(384)	(4)	(1,607)	—	(1,611)
Repurchase of Class B common stock	—	—	—	—	(387)	(1,651)	—	—	(1,651)
Conversion of Class A common stock to Class B common stock	(62)	(1)	62	1	—	—	—	—	—
Repurchase of unvested restricted stock	—	—	—	—	(723)	(7)	—	—	(7)
Stock compensation from options and restricted stock, net of estimated forfeitures	—	—	—	—	—	—	15,696	—	15,696
Retirement of treasury stock	—	—	(1,249)	(13)	1,249	2,716	(2,703)	—	—
Net loss	—	—	—	—	—	—	—	(35,196)	(35,196)
Common stock cash dividends	—	—	—	—	—	—	(9,376)	—	(9,376)
Balances at December 31, 2012	9,570	$ 98	28,380	$ 284	(402)	$ (13)	$ 295,532	$ (172,966)	$ 122,935
Issuance of common stock upon exercise of stock options	—	—	560	6	—	—	2,925	—	2,931
Issuance of common stock upon vesting of restricted stock units	—	—	71	—	—	—	—	—	—
Income tax shortfall of option exercises, restricted stock vesting and other, net	—	—	—	—	—	—	(384)	—	(384)
Issuance of common stock under employee stock purchase plan	—	—	12	—	—	—	72	—	72
Issuance of restricted stock	—	—	735	7	—	—	—	—	7
Tax withholding related to restricted stock awards	—	—	—	—	(220)	(2)	(1,764)	—	(1,766)
Repurchase of Class B common stock	—	—	—	—	(31)	(119)	—	—	(119)
Conversion of Class A common stock to Class B common stock	(1,800)	(18)	1,800	18	—	—	—	—	—
Repurchase of unvested restricted stock	—	—	—	—	(185)	(2)	—	—	(2)
Stock compensation from options and restricted stock, net of estimated forfeitures	—	—	—	—	—	—	9,264	—	9,264
Retirement of treasury stock	—	—	(679)	(6)	679	134	(128)	—	—
Net income	—	—	—	—	—	—	—	1,817	1,817
Balances at December 31, 2013	7,770	$ 80	30,879	$ 309	(159)	$ (2)	$ 305,517	$ (171,149)	$ 134,755
Issuance of common stock in offering, net of costs	—	—	3,371	34	—	—	32,448	—	32,482
Issuance of common stock upon exercise of stock options	—	—	748	7	—	—	4,170	—	4,177
Issuance of common stock upon vesting of restricted stock units	—	—	257	3	—	—	—	—	3
Income tax shortfall of option exercises, restricted stock vesting and other, net	—	—	—	—	—	—	(1,229)	—	(1,229)
Issuance of common stock under employee stock purchase plan	—	—	12	—	—	—	67	—	67
Issuance of restricted stock	—	—	65	1	—	—	—	—	1
Tax withholding related to restricted stock awards	—	—	—	—	(175)	(1)	(1,079)	—	(1,080)
Repurchase of Class B common stock	—	—	—	—	(669)	(2,505)	—	—	(2,505)
Conversion of Class A common stock to Class B common stock	(2,537)	(25)	2,537	25	—	—	—	—	—
Repurchase of unvested restricted stock	—	—	—	—	(49)	(1)	—	—	(1)
Stock compensation from options and restricted stock, net of estimated forfeitures	—	—	—	—	—	—	11,903	—	11,903
Retirement of treasury stock	—	—	(598)	(6)	598	6	—	—	—
Net loss	—	—	—	—	—	—	—	(19, 090)	(19,090)
Common stock cash dividends	—	—	—	—	—	—	(3,330)	—	(3,330)
Balances at December 31, 2014	5,233	$ 55	37,271	$ 373	(454)	$ (2,503)	$ 348,467	$ (190,239)	$ 156,153

See accompanying notes to consolidated financial statements.

MARCHEX, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(in thousands)

	Years ended December 31,		
	2012	2013	2014
Cash flows from operating activities:			
Net income (loss)	$(35,196)	$ 1,817	$(19,090)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization and depreciation	8,457	6,683	4,105
Accretion of interest expense	362	—	—
Acquisition and separation related costs	(132)	(62)	(68)
Impairment of goodwill	16,739	—	—
(Gain) loss on sales of fixed assets, net	—	7	—
Gain on sale of discontinued operations	—	(1,492)	(422)
Gain on sales and disposals of intangible assets, net	(6,296)	(3,774)	—
Allowance for doubtful accounts and advertiser credits	1,780	1,722	1,528
Stock-based compensation	15,696	9,264	11,903
Deferred income taxes	16,586	1,968	24,390
Excess tax benefit related to stock-based compensation	(308)	—	—
Change in certain assets and liabilities:			
Accounts receivable, net	2,948	(5,732)	2,536
Refundable taxes, net	(100)	167	(34)
Prepaid expenses and other current assets	1,884	(338)	(104)
Accounts payable	(550)	3,513	(2,199)
Accrued expenses and other current liabilities	(1,704)	(39)	(480)
Deferred revenue	79	(49)	729
Other non-current liabilities	(344)	(59)	(375)
Net cash provided by operating activities	19,901	13,596	22,419
Cash flows from investing activities:			
Purchases of property and equipment	(2,879)	(3,041)	(3,265)
Proceeds from sales of property and equipment	—	9	—
Proceeds from sales of intangible assets	6,319	3,775	—
Purchases of intangibles and changes in other non-current assets	(120)	(154)	(217)
Proceeds from sale of discontinued operations	—	1,058	304
Net cash provided by (used in) investing activities	3,320	1,647	(3,178)
Cash flows from financing activities:			
Excess tax benefit related to stock-based compensation	308	—	—
Proceeds from offering, net of costs	—	—	32,527
Tax withholding related to restricted stock awards	(226)	(3,150)	(1,080)
Repurchase of Class B common stock for treasury stock	(1,651)	(119)	(2,486)
Common stock dividends payments	(9,376)	—	(3,330)
Proceeds from exercises of stock option and vesting of restricted stock units	27	2,931	4,181
Proceeds from issuance of restricted stock to employees, net of repurchases of forfeited unvested restricted stock	8	5	—
Deferred acquisition payments	(33,860)	—	—
Proceeds from employee stock purchase plan	36	72	67
Net cash provided by (used in) financing activities	(44,734)	(261)	29,879
Net increase (decrease) in cash and cash equivalents	(21,513)	14,982	49,120
Cash and cash equivalents at beginning of period	37,443	15,930	30,912
Cash and cash equivalents at end of period	$ 15,930	$ 30,912	$ 80,032
Supplemental disclosure of cash flow information:			
Cash received (paid) during the period for income taxes, net	117	19	(70)
Cash paid during the period for interest accretion on deferred payment	881	—	—
Cash paid during the period for interest, net	62	80	74
Supplemental disclosure of non-cash investing and financing activities:			
Deferred payments related to acquisition	835	—	—
Property and equipment acquired in accounts payable and accrued expenses	239	167	157
Tax withholding related to restricted stock awards in accrued expenses	1,384	—	—

See accompanying notes to consolidated financial statements.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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 mobile advertising technology company. The Company provides products and services for businesses of all sizes that depend on consumer phone calls to drive sales. The Company's technology platform delivers performance-based, pay-for-call advertising across numerous mobile and online publishers to connect high-intent consumers with businesses over the phone while its technology facilitates call quality, analyzes calls in real time and measures the outcomes of calls. The Company through its Archeo division enables the buying, selling and development of domain names. The Company also provides performance-based online advertising that connects advertisers with consumers across our owned web sites as well as third party web sites.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. 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.

In July 2013, the Company sold certain assets related to Archeo's pay-per-click advertising services. As a result, the operating results related to these certain pay-per-click assets are shown as discontinued operations in the consolidated statements of operations for all periods presented (see *Note 12 Discontinued Operations*). Unless otherwise indicated, information presented in the notes to the financial statements relates only to the Company's continuing operations.

(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, 2013 and 2014: cash and cash equivalents, accounts receivable, refundable taxes, accounts payable and accrued liabilities. The carrying value of cash and cash equivalents, accounts receivable, refundable taxes, accounts payable and accrued liabilities approximates their fair value based on the liquidity of these financial instruments and their short-term nature.

(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 credit-worthiness and current economic trends. Past due balances over 90 days and specific other balances are reviewed individually for collectibility. The Company reviews the allowance for collectibility 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, 2012	$ 793	$ 594	$ 810	$ 577
December 31, 2013	577	772	728	621
December 31, 2014	621	256	294	583

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	Balance at end of period
December 31, 2012	$ 473	$ 1,186	$ 1,074	$ 585
December 31, 2013	585	994	870	709
December 31, 2014	709	1,257	948	1,018

(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 is 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 ranging from three to eight years.

(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.

The Company applies the provisions of FASB ASC 350 "*Goodwill and Intangible Assets*". Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of FASB ASC 350. FASB ASC 350 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with FASB ASC 360.

(g) Impairment or Disposal of Long-Lived Assets

The Company reviews its long-lived assets for impairment in accordance with FASB ASC 360 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

The following table presents the Company's revenues by segment for the periods presented (in thousands):

	Years ended December 31,		
	2012	2013	2014
Call-Driven	$111,886	$135,126	$168,051
Archeo	20,908	17,424	14,593
Total Revenue	$132,794	$152,550	$182,644

Call-driven revenue consists of payments from advertisers for pay-for-call marketing services and for use of the Company's call analytics technology. Call-driven revenue also consists of payments from reseller partners for use of the Company's technology platform and marketing services, which they offer to their small business customers, as well as payments from advertisers for cost-per-action marketing services. Archeo revenue includes revenue generated from advertisements on the Company's network of owned and operated websites and third-party distribution, as well as from the sale of domain names occurring after the launch of the Company's Domains Marketplace in September 2013. Prior to the launch of Domains Marketplace, the sale of domain names were reported as gains on sales and disposals of intangible assets, net in the consolidated financial statements.

The following table presents our revenues, by revenue source, for the periods presented (in thousands):

	Years ended December 31,		
	2012	2013	2014
Partner and Other Revenue Sources	$121,904	$141,617	$171,314
Proprietary Web site Traffic Sources and Domain Names	10,890	10,933	11,330
Total Revenue	$132,794	$152,550	$182,644

The Company's partner network revenues are primarily generated using third party distribution networks to deliver the pay-for-call and pay-for-click advertisers' listings. The distribution network includes mobile and online search engines and applications, directories, destination sites, shopping engines, third party Internet domains or web sites, other targeted Web-based content, mobile carriers and other offline sources. The Company generates revenue upon delivery of qualified and reported phone calls or click-throughs to our advertisers or to advertising services providers' listings. The Company also generates revenue from cost-per-action services, which occurs when a user makes a phone call from the Company's advertiser's listing or is redirected from one of the Company's web sites or a third party web site in the Company's distribution network to an advertiser web site and completes the specified action. The Company pays a revenue share to the distribution partners to access their mobile, online, offline and other user traffic. Other revenues include call provisioning and call tracking services, presence management services, campaign management services and outsourced search marketing platforms.

The Company's proprietary web site traffic revenues are generated from the Company's portfolio of owned web sites which are monetized with pay-for-call or pay-per-click listings that are relevant to the web sites, as well as other forms of advertising, including banner advertising and sponsorships. When an online user navigates to one of the Company's owned and operated web sites and calls or clicks on a particular listing or completes the specified action, the Company receives a fee. Other proprietary web site traffic revenues include domain name sales, which have been recognized as revenue since the launch of its Domains Marketplace in September 2013.

The Company's performance-based advertising services, which includes call advertising, pay-per-click services, and cost-per-action services accounted for more than 76% of revenue for the years ended December 31, 2012, 2013 and 2014. The Local Leads platform, which enables partner resellers to sell call advertising and/or

search marketing products, campaign management services, and starting in September 2013, domain name sales through our Domains Marketplace accounted for less than 24% of revenue for the years ended December 31, 2012, 2013 and 2014. The Company has no barter transactions.

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

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

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

The Company generates revenue from reseller partners and publishers utilizing the Company's Local Leads platform to sell call advertising, search marketing and other lead generation products. The Company is paid account fees and also agency fees for the Company's products in the form of a percentage of the cost of every call or click delivered to advertisers. The reseller partners or publishers engage the advertisers and are the primary obligor, and the Company, in certain instances, is only financially liable to the publishers in the Company's capacity as a collection agency for the amount collected from the advertisers. The Company recognizes revenue for these fees under the net revenue recognition method. In limited arrangements resellers pay the Company a fee for fulfilling an advertiser's campaign in its distribution network and the Company acts as the primary obligor. The Company recognizes revenue for these fees under the gross revenue recognition method.

On September 10, 2013, the Company launched Domains Marketplace, which provides domain names available for sale and initiated plans to facilitate the active buying and transacting of domain names. Domain name sales occurring after this launch have been recognized as revenue in the consolidated financial statements. Historically, the sale of domain names were not a core operation of the Company and were peripheral to the generation of advertising revenue from domain names held for use, and as such, domain name sales were reported as gains on sales and disposals of intangible assets, net in the consolidated financial statements.

Advertisers pay the Company additional fees for services such as campaign management. Advertisers generally pay the Company on a click-through basis, although in certain cases the Company receives a fixed fee for delivery of these services. In some cases we also deliver banner campaigns for select advertisers. Banner advertising revenue may be based on a fixed fee per click and is generated and recognized on click-through activity. In other cases, banner payment terms are volume-based with revenue generated and recognized when impressions are delivered.

The Company enters into agreements with various distribution partners to provide distribution for pay-for-call and pay-per-click advertisement listings which contain call tracking numbers and/or URL strings of our

advertisers. The Company generally pays distribution partners based on a percentage of revenue or a fixed amount per phone call or click-through on these listings. The Company acts as the primary obligor with the advertiser for revenue call or click-through transactions and is responsible for the fulfillment of services.

In accordance with FASB ASC 605, the revenue derived from advertisers is reported gross based upon the amounts received from the advertiser. The Company also recognizes revenue for certain agency contracts with advertisers under the net revenue recognition method. Under these specific agreements, the Company purchases listings on behalf of advertisers from mobile sources, search engines and applications, directories, other Web-based content providers and offline sources. The Company is paid account fees and also agency fees based on the total amount of the purchase made on behalf of these advertisers. Under these agreements, the advertisers are primarily responsible for choosing the publisher and determining pricing, and the Company, in certain instances, is only financially liable to the publisher for the amount collected from our advertisers. This creates a sequential liability for media purchases made on behalf of advertisers. In certain instances, the web publishers engage the advertisers directly and the Company is paid an agency fee based on the total amount of the purchase made by the advertiser. In other arrangements resellers pay us a fee for fulfilling an advertiser's campaign in our distribution network and we act as the primary obligor. We recognize revenue for these fees under the gross revenue recognition method.

The Company applies FASB ASC 605 to account for revenue arrangements with multiple deliverables. FASB ASC 605 addresses certain aspects of accounting by a vendor for arrangements under which the vendor will perform multiple revenue-generating activities. When an arrangement involves multiple deliverables, the entire fee from the arrangement is allocated to each respective deliverable based on its relative selling price and recognized when revenue recognition criteria for each deliverable are met. The selling price for each deliverable is established based on the sales price charged when the same deliverable is sold separately, the price at which a third party sells the same or similar and largely interchangeable deliverable on a standalone basis or the estimated selling price if the deliverable were to be sold separately.

(i) Service Costs

The largest component of the Company's service costs consist of user acquisition costs that relate primarily to payments made to distribution partners for access to their mobile, online, and other offline user traffic. The Company enters into agreements of varying durations with distribution partners that integrate the Company's services into their web sites and indexes. The primary payment structure of the distribution partner agreements is a variable payment based on a specified percentage of revenue. These variable payments are often subject to minimum payment amounts per phone call or click-through. Other payment structures that to a lesser degree exist include: 1) fixed payments, based on a guaranteed minimum amount of usage delivered, 2) variable payments based on a specified metric, such as number of paid click-throughs, and 3) a combination arrangement with both fixed and variable amounts that may be paid in advance.

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

Service costs also include network operations and customer service costs that consist primarily of costs associated with providing performance-based advertising and search marketing services, maintaining the Company's web sites, credit card processing fees, network costs and fees paid to outside service providers that provide the Company's paid listings and customer services. Customer service and other costs associated with serving the Company's call and search results and maintaining the Company's web sites include depreciation of web sites and network equipment, colocation charges of the Company's network web site equipment, bandwidth

and software license fees, salaries of related personnel, stock-based compensation and amortization of intangible assets. Other service costs include license fees, domain name costs, amortization of the purchase cost of domain names, costs incurred for the renewal of the domain name registration and telecommunication costs, including the use of telephone numbers for providing call-based advertising services.

(j) Advertising Expenses

Advertising costs are expensed as incurred and include mobile and Internet-based advertising, sponsorships, and trade shows. Such costs are included in sales and marketing. The amounts for mobile, online and related outside marketing activities were approximately $1.8 million, $1.0 million and $780,000 for the years ended December 31, 2012, 2013 and 2014, respectively.

(k) Other Intangible Assets and Product Development

The Company capitalizes costs incurred to acquire domain names or URLs, which include the initial registration fees, and amortizes the costs over the expected useful life of the domain names on a straight-line basis. The expected useful lives range from 12 to 84 months. As of December 31, 2012, the net carrying value of Internet domains names related to domain names held for use. On September 10, 2013, the Company launched its Domains Marketplace, which provides domain names available for sale and initiated plans to facilitate the active buying and transacting of domain names. The net carrying value of Internet domain names as of December 31, 2013 and 2014 related to both domain names held for use and available for sale. In order to maintain the rights to each domain name acquired, the Company pays periodic registration fees, which generally cover a minimum period of 12 months. The Company records registration renewal fees of domain name intangible assets as a prepaid expense and recognizes the cost over the renewal period.

Product development costs consist primarily of expenses incurred by the Company in the research and development, creation, and enhancement of the Company's Internet sites 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 350. FASB ASC 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

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. In 2014, we adopted ASU 2013-11 whereby we reclassified uncertain tax positions of $534,000 from other non-current liabilities to deferred tax assets.

(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, net of estimated forfeitures, over the vesting or service period, as applicable, of the stock award using the straight-line method.

(n) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The Company has used estimates related to several financial statement amounts, including revenues, allowance for doubtful accounts, allowance for advertiser credits, useful lives for property and equipment and intangible assets, the fair value of the Company's common stock and stock option awards, the impairment of goodwill and intangible assets and the valuation allowance for deferred tax assets. Actual results could differ from those estimates.

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

(o) Concentrations

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

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

There were no distribution partners paid more than 10% of consolidated revenue for the year ended December 31, 2012 and one distribution partner was paid less than 16% of consolidated revenue for each of the years ended December 31, 2013 and 2014.

The advertisers representing more than 10% of consolidated revenue are as follows (in percentages):

	Years ended December 31,		
	2012	2013	2014
Advertiser A	28%	25%	24%
Advertiser B	*	13%	*
Advertiser C	*	12%	27%

Advertiser A is also a distribution partner.

The outstanding receivable balance for each advertiser representing more than 10% of consolidated accounts receivable is as follows (in percentages):

	At December 31,	
	2013	2014
Advertiser A	41%	41%
Advertiser B	14%	*
Advertiser C	13%	*
Advertiser D	*	16%

* Less than 10%.

In certain cases, the Company may engage directly with one or more advertising agencies who act on an advertiser's behalf. In addition, an advertising agency may represent more than one advertiser. For the years

ended December 31, 2012, 2013 and 2014, no advertising agency represented more than 10% of consolidated revenue and as of December 31, 2013, no advertising agency represented more than 10% of consolidated accounts receivable. There was one advertising agency, which represented 13% of consolidated accounts receivable balance as of December 31, 2014.

(p) 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 our 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. Additionally, the Company has paid dividends equally to both classes of common stock and the unvested restricted shares since it initiated a quarterly cash dividend in November 2006.

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 calculates net income (loss) from continuing operations to net income (loss) applicable to common stockholders used to compute basic net income (loss) per share for the periods ended (in thousands, except per share amounts):

	Twelve months ended December 31,					
	2012		2013		2014	
	Class A	Class B	Class A	Class B	Class A	Class B
Basic net income (loss) per share:						
Numerator:						
Net income (loss) from continuing operations	$ (9,900)	$(24,358)	$ 222	$ 735	$(2,852)	$(16,525)
Dividends paid to participating securities	—	(657)	—	—	—	(127)
Net income (loss) from continuing operations applicable to common stockholders	$ (9,900)	$(25,015)	$ 222	$ 735	$(2,852)	$(16,652)
Discontinued operations, net of tax	(264)	(674)	199	661	40	247
Net income (loss) applicable to common stockholders	$(10,164)	$(25,689)	$ 421	$ 1,396	$(2,812)	$(16,405)
Denominator:						
Weighted average number of shares outstanding used to calculate basic net income (loss) per share	9,574	24,412	8,816	26,798	5,853	34,157
Basic net income (loss) per share:						
Net income (loss) from continuing operations applicable to common stockholders	$ (1.03)	$ (1.02)	$ 0.03	$ 0.03	$ (0.49)	$ (0.49)
Discontinued operations, net of tax	(0.03)	(0.03)	0.02	0.02	0.01	0.01
Basic net income (loss) per share applicable to common stockholders	$ (1.06)	$ (1.05)	$ 0.05	$ 0.05	$ (0.48)	$ (0.48)

The following table calculates net income (loss) from continuing operations to net income (loss) applicable to common stockholders used to compute diluted net income (loss) per share for the periods ended (in thousands, except per share amounts):

	Twelve months ended December 31,					
	2012		2013		2014	
	Class A	Class B	Class A	Class B	Class A	Class B
Diluted net income (loss) per share:						
Numerator:						
Net income (loss) from continuing operations	$ (9,900)	$(24,358)	$ 217	$ 740	$(2,852)	$(16,525)
Dividends paid to participating securities	—	(657)	—	—	—	(127)
Reallocation of net income (loss) for Class A shares as a result of conversion of Class A to Class B shares	—	(9,900)	—	217	—	(2,852)
Net income (loss) from continuing operations applicable to common stockholders	$ (9,900)	$(34,915)	$ 217	$ 957	$(2,852)	$(19,504)
Discontinued operations, net of tax	(264)	(674)	195	665	40	247
Reallocation of discontinued operations for Class A shares as a result of conversion of Class A to Class B share	—	(264)	—	195	—	40
Diluted discontinued operations, net of tax	$ (264)	$ (938)	$ 195	$ 860	$ 40	$ 287
Net income (loss) applicable to common stockholders	$(10,164)	$(35,853)	$ 412	$ 1,817	$(2,812)	$(19,217)
Weighted average number of shares outstanding used to calculate basic net income (loss) per share	9,574	24,412	8,816	26,798	5,853	34,157
Weighted average stock options and common shares subject to repurchase or cancellation	—	—	—	1,385	—	—
Conversion of Class A to Class B common shares outstanding	—	9,574	—	8,816	—	5,853
Weighted average number of shares outstanding used to calculate diluted net income (loss) per share	9,574	33,986	8,816	36,999	5,853	40,010
Diluted net income (loss) per share:						
Net income (loss) from continuing operations applicable to common stockholders	$ (1.03)	$ (1.02)	$ 0.03	$ 0.03	$ (0.49)	$ (0.49)
Discontinued operations, net of tax	(0.03)	(0.03)	0.02	0.02	0.01	0.01
Diluted net income (loss) per share applicable to common stockholders	$ (1.06)	$ (1.05)	$ 0.05	$ 0.05	$ (0.48)	$ (0.48)

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

- For the years ended December 31, 2012, 2013 and 2014, outstanding options to acquire 7,029, 4,565, and 7,797 shares, respectively, of Class B common stock.
- For the years ended December 31, 2012, 2013, and 2014, 2,433, 174, and 1,007 shares, respectively, of unvested Class B restricted common shares issued to employees and in connection with acquisitions.
- For the year ended December 31, 2012, 2013 and 2014, 131, 43, and 1,134 restricted stock units, respectively.

(q) Guarantees

FASB ASC 460 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 460 except for standard indemnification provisions that are contained within many of the Company's advertiser and distribution partner agreements, and give rise only to the disclosure requirements prescribed by FASB ASC 460.

In certain agreements, the Company has agreed to indemnification provisions of varying scope and terms with advertisers, 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 we could be required to make under these indemnification provisions could be material.

(r) Deferred Acquisition Payment

The Company's deferred acquisition payments represent consideration payable related to a business combination in 2011. Both deferred acquisition payments were paid in cash in April 2012 and October 2012.

(s) Recent Accounting Pronouncement Not Yet Effective

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606) (ASU 2014-09)*, which amends the existing accounting standards for revenue recognition. ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled when products or services are transferred to customers. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. ASU 2014-09 may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is currently in the process of evaluating the impact of adoption of ASU 2014-09 on its consolidated financial statements.

(2) Property and Equipment

Property and equipment consisted of the following (in thousands):

	Years ended December 31,	
	2013 (1)	2014 (1)
Computer and other related equipment	$ 17,794	$ 18,662
Purchased and internally developed software	7,672	7,836
Furniture and fixtures	1,319	1,416
Leasehold improvements	1,829	1,834
	$ 28,614	$ 29,748
Less: accumulated depreciation and amortization	(23,174)	(24,318)
Property and equipment, net	$ 5,440	$ 5,430

(1) Includes the original cost and accumulated depreciation of fully-depreciated fixed assets which were $17.4 million and $18.9 million at December 31, 2013 and 2014, respectively.

The Company has capitalized certain costs of internally developed software for internal use. The estimated useful life of costs capitalized is evaluated for each specific project. Amortization begins in the period in which the software is ready for its intended use. The Company has not capitalized any internally developed software costs during 2012, 2013 and 2014. Depreciation and amortization expense incurred by the Company was approximately $3.2 million, $3.4 million and $3.4 million for the years ended December 31, 2012, 2013 and 2014, respectively.

(3) Credit Agreement

In April 2008, the Company entered into a credit agreement providing for a senior secured $30 million revolving credit facility ("Credit Agreement"). In 2011, the Company signed an amendment to the Credit Agreement, which extended the maturity period through to April 1, 2014. During the first quarter of 2014, the Company signed an amendment to the Credit Agreement, which extended the maturity period to April 1, 2017. Interest on outstanding balances under the Credit Agreement will accrue at LIBOR plus an applicable margin rate, as determined under the agreement and has an unused commitment fee. The Credit Agreement contains certain customary representations and warranties, financial covenants, events of default and is secured by substantially all of the assets of the Company. During the years ended December 31, 2012, 2013 and 2014, the Company had no borrowings under the Credit Agreement.

(4) 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 expiring through 2018. The Company recognizes rent expense under such agreements on a straight-line basis over the lease term with any lease incentive amortized as a reduction of rent expense over the lease term. The Company also has other contractual obligations expiring over varying time periods through 2016. Other contractual obligations primarily relate to minimum contractual payments due to distribution partners and other outside service providers.

Future minimum payments are approximately as follows (in thousands):

	Facilities operating leases	Other contractual obligations	Total
2015	$ 2,271	$ 2,496	$ 4,767
2016	2,313	1,431	3,744
2017	2,373	—	2,373
2018	577	—	577
2019 and after	—	—	—
Total minimum payments	$ 7,534	$ 3,927	$11,461

Rent expense incurred by the Company was approximately $2.0 million, $1.9 million and $1.9 million for the years ended December 31, 2012, 2013 and 2014, respectively.

(5) Income Taxes

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

	Years ended December 31,		
	2012	2013	2014
United States	$(17,696)	$2,710	$4,899
Foreign	4	2	1
Income (loss) before provision for income taxes	$(17,692)	$2,712	$4,900

The provision for income taxes from continuing operations for the Company consists of the following (in thousands):

	Years ended December 31,		
	2012	2013	2014
Current provision (benefit)			
Federal	$ (69)	$ (11)	$ 2
State	63	34	34
Foreign	2	—	—
Deferred provision			
Federal	4,139	874	3,786
State	—	—	—
Tax benefit of equity adjustment for stock option exercises and restricted stock vesting	(4,227)	(76)	(1,231)
Valuation allowance	16,400	651	21,686
Other	258	283	—
Total income tax expense	$16,566	$1,755	$24,277

Income tax expense (benefit) from continuing operations differed from the amounts computed by applying the U.S. federal income tax rates of 34% to income (loss) before provision for income taxes as a result of the following (in thousands):

	Years ended December 31,		
	2012	2013	2014
Income tax expense (benefit) at U.S. statutory rate	$ (6,016)	$ 922	$ 1,666
State taxes, net of valuation allowance	40	17	22
Non-deductible stock compensation	589	571	602
Non-deductible goodwill impairment	3,534	—	—
Effect of rate change on deferred items	1,289	—	—
Valuation allowance	16,400	651	21,686
Effect of non-U.S. operations, net of valuation allowance	—	—	—
Research tax credits	(242)	(851)	(547)
Other non-deductible expenses	972	445	848
Total income tax expense	$16,566	$1,755	$24,277

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below (in thousands):

	As of December 31,	
	2013	2014
Deferred tax assets:		
Accrued liabilities not currently deductible	$ 1,631	$ 1,589
Intangible assets-excess of financial statement over tax amortization	14,208	12,156
Goodwill recognized on financial statements in excess of tax amortization	15,420	11,864
Stock-based compensation	5,158	4,542
Federal net operating losses and AMT credit carryforwards	3,897	5,209
State and city net operating loss carryforwards	5,883	5,964
Research & experimental tax credit carryforwards	2,613	2,626
Other	582	852
Gross deferred tax assets	49,392	44,802
Valuation allowance	(23,034)	(44,802)
Net deferred tax assets	26,358	—
Deferred tax liabilities:		
Excess of tax over financial statement depreciation	204	—
Total deferred tax liabilities	204	—
Net deferred tax assets	$ 26,154	$ —

As of December 31, 2014, the Company's federal NOL carryforwards excluding those acquired were approximately $21.6 million for income tax purposes, which will begin to expire in 2032. In connection with the 2011 Jingle acquisition, the Company acquired federal NOL carryforwards of $4.4 million, which begin to expire in 2026. As of December 31, 2014, the Company's state and city NOL carryforwards were approximately $6.0 million, which begin to expire in 2025.

In addition, at December 31, 2013 and 2014, the Company had certain federal NOL carryforwards of approximately $1.7 million, which begin to expire in 2019. The Tax Reform Act of 1986 limits the use of NOL and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. The Company believes that such a change has occurred related to these specific NOL carryforwards, and that the utilization of the approximately $1.7 million in carryforwards is limited such that substantially all of these NOL carryforwards will never be utilized. Accordingly, the Company has not included these federal NOL carryforwards in its deferred tax assets.

As of December 31, 2014, the Company has research and development credit carryforwards of $3.3 million available for income tax purposes, which will begin to expire 2029. In December 2014, the Tax Increase Prevention Act of 2014 was signed into law and retroactively extended the research and development tax credit to January 1, 2014 to December 31, 2014. Accordingly, a tax benefit of $547,000 was included in the year ended December 31, 2014. In January 2013, the 2012 Taxpayer Relief Act was signed into law, which extended the research and development tax credit for two years to December 31, 2013 and was retroactive to January 1, 2012. A tax benefit of $398,000 related to the 2012 research and development credit is included in the year ended December 31, 2013.

The Company has recorded a deferred tax asset for stock-based compensation recorded on unexercised non-qualified stock options and certain restricted shares. 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 vest, and generation of sufficient taxable income to realize the benefit of the related tax deduction.

At December 31, 2012 , 2013 and 2014, the Company recorded a valuation allowance of $21.6 million, $23.0 million and $44.8 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, 2013 and 2014 was an increase of $1.4 million and $21.8 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 advertiser usage rates, projected revenues and expenses, macroeconomic conditions, issues facing our industry, existing contracts, our ability to project future results and any appreciation of our other assets. At the end of the fourth quarter of 2012, the Company recognized a partial valuation allowance of $16.4 million on its federal deferred tax assets. During the fourth quarter of 2012, the Company incurred a $15.8 million goodwill impairment loss, which excludes $902,000 related to discontinued operations, within its Archeo reporting unit due in part to lower projected revenue growth rates and profitability levels within Archeo compared to historical results.

At December 31, 2014, based upon both positive and negative evidence available, the Company determined that it is not more likely than not that its deferred tax assets of $44.8 million will be realized and accordingly, the Company has recorded 100% valuation allowance of $44.8 million against these deferred tax assets. During the third quarter of 2014, the valuation allowance increased by $22.3 million resulting in a corresponding income tax expense of $22.3 million. In assessing the realizability of deferred tax assets, the Company 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. The Company considered the future reversal of deferred tax liabilities, carryback potential, projected taxable income, and tax planning strategies as well as its history of taxable income or losses in the relevant jurisdictions in making this assessment. The Company incurred taxable losses in 2012, 2013, and 2014 of $3.5 million, $7.6 million, and $10.5 million, respectively. During the third quarter of 2014, a significant customer cancelled its arrangement with the Company resulting in lower projected revenue and profitability. 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, the Company concluded that it is not more likely than not that the gross deferred tax assets will be realized.

At December 31, 2013 and 2014, based upon both positive and negative evidence available, the Company has determined it is not more likely than not that certain deferred tax assets primarily relating to NOL carryforwards in certain state, city, and foreign jurisdictions will be realizable and accordingly, recorded a 100% valuation allowance of $6.0 million and $6.0 million against these deferred tax assets, respectively. The Company does not have a history of taxable income in the relevant jurisdictions and the state and foreign NOL carryforwards will more likely than not expire unutilized. Should the Company determine in the future that all or part of the deferred tax assets will be realized, a tax benefit will be recorded accordingly in the period such determination is made.

During the years ended December 31, 2012, 2013 and 2014, the Company recognized excess tax benefits (shortfall) on stock option exercises, restricted stock vesting, and dividends paid on unvested restricted stock of approximately ($4.0) million, ($76,000), and ($1.2) million, respectively, which were recorded to additional paid in capital.

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 our 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, 2012 to December 31, 2014 (in thousands):

Gross tax contingencies—January 1, 2012	$ 305
Gross increases to tax positions associated with prior periods	$ 28
Gross increases to current period tax positions	$ —
Gross decreases to tax positions associated with prior periods	$ (83)
Settlements	$ —
Lapse of statute of limitations	$ —
Gross tax contingencies—December 31, 2012	$ 250
Gross increases to tax positions associated with prior periods	$ —
Gross increases to current period tax positions	$ 284
Gross decreases to tax positions associated with prior periods	$ —
Settlements	$ —
Lapse of statute of limitations	$ —
Gross tax contingencies—December 31, 2013	$ 534
Gross increases to tax positions associated with prior periods	$ —
Gross increases to current period tax positions	$ 183
Gross decreases to tax positions associated with prior periods	$ —
Settlements	$ —
Lapse of statute of limitations	$ —
Gross tax contingencies—December 31, 2014	$ 717

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 2010 are within the statute of limitations and are under examination or may be subject to examination.

(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 Class A and the founding Class B 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 April 2014, the Company completed a follow-on public offering in which the Company sold an aggregate of 3.4 million shares of the Company's Class B common stock, which includes the exercise of the underwriters' option to purchase 514,100 additional shares, at a public offering price of $10.50 per share. In addition, another 3.2 million shares were sold by the selling stockholders, which include the exercise of the underwriter's option to purchase 343,000 additional shares. The Company received aggregate net proceeds of $32.5 million, after deducting underwriting discounts and commissions and estimated offering expenses. The Company did not receive any of the proceeds from the sales of shares by the selling stockholders.

In November 2006, the Company's board of directors authorized a share repurchase program (the "2006 Repurchase Program") for the Company to repurchase up to 3 million shares of the Company's Class B common stock as well as the initiation of a quarterly cash dividend for the holders of the Class A and Class B common stock. The Company's board of directors had authorized increases to the 2006 Repurchase Program for the Company to repurchase up to 13 million shares in the aggregate (less shares previously repurchased under the 2006 Repurchase Program) of the Company's Class B common stock. During the years ended December 31, 2012 and 2013, the Company repurchased approximately 387,000, and 31,000 shares, respectively, of Class B common stock for $1.7 million, and $119,000, respectively, under the 2006 repurchase program. During the year ended December 31, 2014, the Company did not repurchase any shares of Class B common stock as part of the 2006 Repurchase Program.

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. During the year ended December 31, 2014, the Company repurchased 669,000 shares of Class B common stock for $2.5 million as part of the 2014 Repurchase Program.

During the years ended December 31, 2013 and 2014, the Company's board of directors authorized the retirement of 679,000 and 598,000 shares, respectively, of the Company's Class B common stock, all of which had been repurchased by the Company and had been classified as treasury stock on the consolidated balance sheet before retirement.

The Company's board of directors declared the following quarterly dividends on the Company's Class A common stock and Class B common stock:

Approval Date	Per share dividend	Date of record	Total amount (in thousands)	Payment date
January 2012	$ 0.02	February 3, 2012	$ 751	February 15, 2012
April 2012	$ 0.02	May 4, 2012	$ 743	May 15, 2012
July 2012	$ 0.02	August 3, 2012	$ 755	August 15, 2012
August 2012	$ 0.015	August 16, 2012	$ 566	August 31, 2012
October 2012	$ 0.035	November 2, 2012	$ 1,300	November 15, 2012
December 2012	$ 0.14	December 18, 2012	$ 5,300	December 31, 2012
January 2014	$ 0.02	February 7, 2014	$ 771	February 18, 2014
April 2014	$ 0.02	May 5, 2014	$ 846	May 15, 2014
July 2014	$ 0.02	August 5, 2014	$ 856	August 15, 2014
October 2014	$ 0.02	November 7, 2014	$ 857	November 18, 2014

In August 2012, the Company's board of directors approved an increase to the Company's quarterly cash dividend on the Company's Class A and Class B common stock from $0.02 per share to $0.035 per share. The Company paid the incremental $0.015 per share dividends on August 31, 2012 to Class A and Class B common stockholders of record as of the close of business on August 16, 2012. The Company paid approximately $566,000 for these incremental dividends.

In December 2012, the Company's board of directors declared a quarterly dividend for the first, second, third and fourth quarters of 2013 totaling $0.14 per share on its Class A common stock and Class B common stock, which was paid on December 31, 2012 to the holders of record as of the close of business on December 18, 2012. The dividend paid totaled $5.3 million.

In January 2015, the Company's board of directors declared a quarterly dividend in the amount of $0.02 per share on its Class A and Class B common stock, which was paid on February 17, 2015 to the holders of record as of the close of business on February 6, 2015. This quarterly dividend totaled approximately $839,000.

(b) Stock Option Plan

The Company's stock incentive plan (the "2003 Plan") allows for grants of both stock option and restricted stock awards to employees, officers, non-employee directors, and consultants and such options may be designated as incentive or non-qualified stock options at the discretion of the Plan's Administrative Committee. In May 2010, the Company's board of directors approved an amendment to the Company's 2003 Amended and Restated Stock Incentive Plan (the "Plan") which provides for the grant of restricted stock units to eligible participants under the Plan. The Plan authorizes grants of options to purchase up to 4,000,000 shares of authorized but unissued Class B common stock and provides for the total number of shares of Class B common stock for which options designated as incentive stock options may be granted shall not exceed 8,000,000 shares. Annual increases are to be added on the first day of each fiscal year beginning on January 1, 2004 equal to 5% 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).

In April 2012, the Company's board of directors approved the establishment of the Marchex 2012 Stock Incentive Plan (the "2012 Plan"). After December 31, 2012, no further awards were made under the 2003 Plan. The 2012 Plan authorizes up to 3,500,000 shares of Class B common stock that may be issued with respect to awards granted under the 2012 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, 2013 equal to 5% 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, if lesser of 2,000,000 shares of Class B common stock or 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 2012 Plan was increased by 1,924,511 to 7,301,899 on January 1, 2014 and 2,102,493 to 9,404,392 on January 1, 2015. 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 2012, 2013, and 2014.

The Company measures stock-based compensation cost at the grant date based on the fair value of the award and recognizes it as expense, net of estimated forfeitures, over the vesting or service period, as applicable, of the stock award using the straight-line method. Stock-based compensation has been included in the same lines as compensation paid to the same employees in the consolidated statement of operations.

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

	Twelve months ended December 31,		
	2012	2013	2014
Service costs	$ 1,869	$ 1,180	$ 1,382
Sales and marketing	2,029	645	894
Product development	1,038	1,635	2,595
General and administrative	10,702	5,777	7,032
Total stock-based compensation	$ 15,638	$ 9,237	$ 11,903

For the years ended December 31, 2012, 2013, and 2014, the income tax benefit related to stock-based compensation included in net income (loss) from continuing operations was $4.7 million, $2.6 million, and $0, respectively. FASB ASC 718 requires the benefits of tax deductions in excess of the stock-based compensation cost to be classified as financing cash inflows and is shown as “Excess tax benefit related to stock-based compensation” on the consolidated statement of cash flows. In addition, a tax benefit and a credit to additional paid-in capital for the excess deductions is not recognized until that deduction reduces taxes payable. For the years ended December 31, 2013 and 2014, we incurred excess tax benefits of $3.0 million and $6.6 million, which were not recorded because the Company is in a cumulative loss carryforward position for income taxes.

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, 2012, 2013 and 2014, the expected life of each award granted was determined based on historical experience with similar awards, giving consideration to contractual terms, anticipated exercise patterns, vesting schedules and forfeitures. 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.

The following weighted average assumptions were used in determining the fair value of time-vested stock options granted for the periods indicated:

	Years ended December 31,		
	2012	2013	2014
Expected life (in years)	4.00 – 6.25	4.00 – 6.25	4.00
Risk-free interest rate	0.47% to 0.78%	0.57% to 2.10%	1.25% to 1.45%
Expected volatility	65% to 70%	54% to 64%	55% to 62%
Weighted average expected volatility	67%	57%	56%
Expected dividend yield	1.33% to 3.11%	0.87% to 2.33%	0.76% to 2.03%

The Company may issue equity awards which include stock options and restricted stock awards that have vesting based on a combination of certain service and market conditions. The compensation costs and derived service periods for stock option grants with vesting based on a combination of service and market conditions are estimated using the binomial lattice model to determine the fair value for each tranche and a Monte Carlo simulation to determine the derived service period for each tranche. The risk-free interest rate is based on the 10 year bond rate as of the valuation date based on the contractual life of the option.

The following weighted average assumptions were used in determining the fair value for options granted with vesting based on a combination of certain service and market conditions for the periods indicated:

	2012	2013
Expected life (in years)	1.50 – 5.74	1.18 – 2.28
Risk-free interest rate	1.81%	2.89%
Expected volatility	60%	61%
Weighted average expected volatility	60%	61%
Expected dividend yield	3.17%	0.89%

There were no options granted in 2014 with vesting based on a combination of certain service and market conditions.

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

	Options and Restricted Stock available for grant	Number of options outstanding	Weighted average exercise price of options	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Balance at December 31, 2013	1,702,174	7,707,713	$ 7.48	6.99	$ 17,148
Increase to option pool January 1, 2014	1,924,511	—			
Options granted	(1,340,686)	1,340,686	9.32		
Restricted stock granted	(698,992)	—			
Restricted stock forfeited	117,354	—			
Options exercised	—	(747,899)	5.59		
Options expired	186,823	(186,823)	11.96		
Options forfeited	316,449	(316,449)	6.55		
Balance at December 31, 2014	2,207,633	7,797,228	$ 7.90	6.58	$ 800
Options exercisable at December 31, 2014 (1)		4,811,469	$ 8.29	5.33	$ 308

(1) Includes 1,199,400 stock options, which have vested based on meeting a combination of certain service and market conditions.

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

	Years ended December 31,		
	2012	2013	2014
Weighted average fair value of options granted	$ 1.78	$ 2.56	$ 3.89
Intrinsic value of options exercised (in thousands)	$ 7	$1,463	$4,016
Total grant date fair value of restricted stock vested (in thousands)	$22,015	$5,751	$6,568

At December 31, 2014, there was $7.7 million of stock option compensation expense related to non-vested awards not yet recognized, which is expected to be recognized over a weighted average period of 2.0 years.

During the years ended December 31, 2012, 2013, and 2014 gross proceeds recognized from the exercise of stock options was $27,000, $2.9 million and $4.2 million, respectively. The net excess tax benefit (shortfall) on stock option exercises, restricted stock vesting, and dividends paid on unvested restricted stock during the years ended December 31, 2012, 2013 and 2014, of ($4.0) million, ($76,000) and ($1.2) million, respectively, was recorded to additional paid in capital.

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

	Shares/ Units	Weighted Average Grant Date Fair Value
Unvested at December 31, 2013	2,709,443	5.41
Granted	698,992	9.30
Vested	(1,150,319)	5.71
Forfeited	(117,354)	4.77
Unvested at December 31, 2014	2,140,762	6.55

The Company issues restricted stock awards and restricted stock units to employees for future services and in connection with acquisitions. 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 accounted for under FASB ASC 718 using the straight-line method net of estimated forfeitures.

At December 31, 2014, there was $10.0 million of unrecognized restricted stock compensation expense related to non-vested awards, which is expected to be recognized over a weighted average period of 2.0 years.

During 2012, 2013 and 2014, the Company repurchased 391,000, 220,000 and 175,000 shares, respectively, from certain executives for minimum withholding taxes on 1,255,000, 1,031,000 and 527,000 restricted stock award vests, respectively. The number of shares repurchased was based on the value on the vesting date of the restricted stock awards equivalent to the value of the executives' minimum withholding taxes of $1.6 million, $1.8 million and $1.1 million for 2012, 2013, and 2014, respectively. The Company then remitted cash to the appropriate taxing authorities. The payments are reflected as a financing activity within the consolidated statement of cash flows when paid. The payments had the effect of share repurchases by the Company as they reduced the number of shares that would have otherwise been issued on the vesting date and were recorded as a reduction of additional paid in capital.

In February 2015, vesting of approximately 139,000 stock options and 108,000 restricted stock awards were accelerated in light of certain terms in a certain executive's employment agreement.

(c) Employee Stock Purchase Plan

On February 15, 2004, the Company's board of directors and stockholders approved the 2004 Employee Stock Purchase Plan ("2004 ESPP"), which became effective on March 30, 2004. The Company authorized an aggregate of 300,000 shares of Class B common stock for issuance under the plan to participating employees.

In December 2005, the compensation committee of the Company's board of directors amended the 2004 ESPP to provide that effective January 1, 2006 eligible participants may purchase the Company's Class B common stock under the purchase plan at a price equal to 95% of the fair value on the last day of an offering period. During the year ended December 31, 2011, 3,637 shares were purchased at prices ranging from $5.94 to $8.44 per share. During the year ended December 31, 2012, 9,817 shares were purchased at prices ranging from $3.43 to $4.24 per share. During the year ended December 31, 2013, 11,511 shares were purchased at prices ranging from $4.00 to $8.22 per share. The 2004 ESPP, as amended, expired on December 31, 2013.

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

periods. 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. Under the 2014 ESPP plan, 11,944 shares were purchased at prices ranging from $3.94 to $11.42 per share for the year ended December 31, 2014.

(7) Contingencies

The Company is involved in legal and administrative proceedings and claims of various types from time to time. While any litigation contains an element of uncertainty, the Company is not aware of any legal proceedings or claims which are pending that the Company believes, based on current knowledge, will have, individually or taken together, a material adverse effect on the Company's financial condition, results of operations or liquidity. In some agreements to which the Company is a party to, the Company has agreed to indemnification provisions of varying scope and terms with advertisers, 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 our 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 we could be required to make under these indemnification provisions could be material.

(8) 401(k) Savings Plan

The Company has a Retirement/Savings Plan (401(k) Plan) under Section 401(k) of the Internal Revenue Code, which covers those employees that meet eligibility requirements. Eligible employees may contribute up to the Internal Revenue Code prescribed maximum amounts. During 2011, the Company elected to match a portion of the employee contributions up to a defined maximum. In 2012, 2013 and 2014, cash contributions were made in the amount of $67,000, $186,000, and $276,000, respectively.

(9) Goodwill

There was no change in goodwill during 2014. The following table outlines the Company's goodwill by reporting unit at December 31, 2013 and 2014 (in thousands):

Call-Driven	$63,305
Archeo	2,374
Total	$65,679

The Company reviews goodwill for impairment annually on November 30 and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. In September 2014, the Company performed impairment testing in accordance with ASC 350 in light of the macroeconomic and competitive environments, customer changes, lower projected revenue and profitability and a significant decrease in our market capitalization. The Company also performed a review of its intangible assets under ASC 360. The estimated fair values of our reporting units were based on estimates of future operating results, discounted cash flows and other market-based factors. As a result of this testing, the Company concluded that there was no impairment of goodwill and intangible assets during the three months ended September 30, 2014. The Company performed its annual impairment testing as of November 30, 2014 and determined that there was no impairment of goodwill and intangible assets during the remainder of 2014.

When evaluating goodwill for impairment, the Company may first perform a qualitative assessment to determine if the fair value of the reporting unit is more likely than not greater than its carrying amount. The

testing of goodwill and other intangible assets for impairment requires the Company to make significant estimates about its future performance and cash flows, as well as other assumptions. Events and circumstances considered in determining whether the carrying value of goodwill may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; 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 the Company's common stock and market capitalization. Significant and sustained declines in the Company's stock price and market capitalization, a significant decline in its expected future cash flows or a significant adverse change in the Company's business climate, among other factors, could result in the need to perform an impairment analysis in future periods. The Company cannot accurately predict the amount and timing of any future impairment of goodwill or other intangible assets. Should the value of goodwill or other intangible assets become impaired, the Company would record an impairment charge, which could have an adverse effect on its financial condition and results of operations.

The current business environment is subject to evolving market conditions and requires significant management judgment to interpret the potential impact to our assumptions. At various points in time during the period January 1, 2015 to March 6, 2015, the Company's stock price approached the then book value. To the extent that changes in the current business environment impact the Company's ability to achieve levels of forecasted operating results and cash flows, if the Company's stock price were to trade below book value per share for an extended period of time and/or should other events occur indicating the remaining carrying value of our assets might be impaired, the Company would test its goodwill and intangible assets for impairment and may recognize an impairment loss to the extent that the carrying amount exceeds such asset's fair value. The Company will continue to monitor its financial performance, stock price and other factors in order to determine if there are any indicators of impairment prior to its annual impairment evaluation in November 2015.

In 2012, the Company concluded that the fair value of its Archeo reporting unit was below its carrying value and recognized an impairment loss of $16.7 million including $902,000 related to discontinued operations. The estimated fair value of the Archeo reporting unit was based on estimates of future operating results, discounted cash flows and other market-based factors. The goodwill impairment recorded within the Archeo reporting unit resulted from associated amounts of goodwill allocated to in the fourth quarter in 2012, and the operating results including lower projected revenue growth rates and profitability levels compared to historical results. The lower projected operating results reflect changes in assumptions related to organic revenue growth rates, market trends, business mix, cost structure, and other expectations about the anticipated short-term and long-term operating results of the Archeo reporting unit.

In 2013, the Company recognized a decrease in goodwill of $136,000 related to the sale of certain assets related to the Company's pay-per-click advertising services in July 2013. See *Note 12. Discontinued Operations* for further discussion. The testing of goodwill and other intangible assets for impairment requires the Company to make significant estimates about its future performance and cash flows, as well as other assumptions. These estimates can be affected by numerous factors, including changes in economic, industry or market conditions, changes in business operations, changes in competition, or changes in the share price of the Company's common stock and market capitalization. Significant and sustained declines in the Company's stock price and market capitalization, a significant decline in its expected future cash flows or a significant adverse change in the Company's business climate, among other factors, could result in the need to perform an impairment analysis in future interim periods. The Company cannot accurately predict the amount and timing of any future impairment of goodwill or other intangible assets. Should the value of goodwill or other intangible assets become impaired, the Company would record an impairment charge, which could have an adverse effect on its financial condition and results of operations.

(10) Intangible and other assets, net

Intangible and other assets, net consisted of the following (in thousands):

	As of December 31,	
	2013	2014
Internet domain names	$ 14,514	$ 14,607
Less accumulated amortization	(14,376)	(14,499)
Internet domain names, net	138	108
Other assets:		
Registration fees, net	12	—
Other	334	205
Total intangibles and other assets, net	$ 484	$ 313

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

On September 10, 2013, the Company launched its Domains Marketplace, which provides domain names available for sale and initiated plans to facilitate the active buying and transacting of domain names. Domain name sales occurring after this launch have been recognized as revenue in the consolidated financial statements. The net carrying value of Internet domain names as of December 31, 2013 and 2014 related to both domain names held for use and available for sale.

The Company also capitalizes costs incurred to renew or extend the term of the domain names or URLs to prepaid expenses and other current assets or registration fees, net. The capitalized costs are amortized over the renewal or extended period on a straight-line basis. The total amount of costs incurred for the years ended December 31, 2013 and 2014 to renew or extend the term for domain names was $2.7 million for each period. The weighted average renewal period for registration fees as of December 31, 2014 was approximately 1.0 year.

Amortization expense for Internet domain names for the years ended December 31, 2012, 2013 and 2014, was approximately $520,000, $336,000 and $239,000, respectively.

Based upon the current amount of domains subject to amortization, the estimated expense for the next five years is as follows: $103,000 in 2015, $5,000 in 2016 and $0 thereafter.

(11) 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. In July 2013, the Company sold certain assets related to Archeo's pay-per-click advertising services. As a result, the operating results related to these certain pay per click assets are shown as discontinued operations, net of tax in the consolidated statements of operations for all periods presented and are excluded from segment reporting. See *Note 12. Discontinued Operations* for further discussion.

The Company's Call-driven segment comprises its performance-based advertising business focused on driving phone calls. The Archeo segment comprises the Company's click-based advertising and Internet domain name businesses. Call-driven segment expenses include both direct costs incurred by the segment business as well as corporate overhead costs. Archeo segment expenses only include direct costs incurred by the segment. Segment expenses exclude the following: stock-based compensation, amortization of intangible assets from acquisitions, acquisition and separation related costs, and other income (expense).

A measure of segment assets is not currently provided to the Company's chief operating decision maker and has therefore not been disclosed. The carrying amount of goodwill by operating segment at December 31, 2013 and 2014 was approximately $63.3 million and $2.4 million for Call-driven and Archeo, respectively.

Selected segment information (in thousands):

	Year ended December 31, 2014		
	Call-driven	Archeo	Total
Revenue	$ 168,051	$14,593	$182,644
Operating expenses	156,952	8,461	165,413
Segment profit	$ 11,099	$ 6,132	$ 17,231
Less reconciling items:			
Stock based compensation			11,903
Amortization of intangible assets from acquisitions			434
Acquisition and separation related costs			(68)
Interest expense and other, net			62
Income from continuing operations before provision for income taxes			$ 4,900

	Year ended December 31, 2013		
	Call-driven	Archeo	Total
Revenue	$ 135,126	$17,424	$152,550
Operating expenses	128,829	11,705	140,534
Gain on sales of intangible assets	—	3,774	3,774
Segment profit	$ 6,297	$ 9,493	$ 15,790
Less reconciling items:			
Stock based compensation			9,237
Amortization of intangible assets from acquisitions			2,926
Acquisition and separation related costs			878
Interest expense and other, net			37
Income from continuing operations before provision for income taxes			$ 2,712

	Year ended December 31, 2012		
	Call-driven	Archeo	Total
Revenue	$ 111,886	$20,908	$132,794
Operating expenses	106,795	12,582	119,377
Gain on sales of intangible assets	—	6,296	6,296
Segment profit	$ 5,091	$14,622	$ 19,713
Less reconciling items:			
Stock based compensation			15,638
Impairment of goodwill			15,837
Amortization of intangible assets from acquisitions			4,728
Acquisition and separation related costs			753
Interest expense and other, net			449
Loss from continuing operations before provision for income taxes			$ (17,692)

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

Revenues by geographic region are as follows:

	Years ended December 31,		
	2012	2013	2014
United States	94%	95%	95%
Canada	6%	5%	3%
Other countries	*	*	2%
	100%	100%	100%

* Less than 1% of revenue

(12) Discontinued Operations

On July 19, 2013, the Company completed the sale of certain pay-per-click advertising services to an unrelated third party. Accordingly, the results of operations of these certain pay-per-click assets are presented in the consolidated financial statements as discontinued operations, net of tax, for the current and all historical periods. The operating results for the discontinued operations were as follows (in thousands):

	Years ended December 31,		
	2012	2013	2014
Revenue	$5,512	$3,185	$—
Income (loss) before provision for income taxes	(947)	(111)	14
Income tax expense (benefit)	(9)	(41)	5
Income (loss) from discontinued operations, net of tax	$ (938)	$ (70)	$ 9
Gain on sale of discontinued operations	—	1,492	422
Income tax expense	—	562	144
Gain on sale of discontinued operations, net of tax	$ —	$ 930	$278
Discontinued operations, net of tax	$ (938)	860	287

The net cash proceeds from the sale were approximately $1.1 million in 2013. The net carrying value of liabilities assumed net of goodwill associated with the component sold was approximately $435,000 resulting in a net gain of $1.5 million from the sale. The sale includes contingent earn-out consideration payments that depend upon the achievement of certain thresholds and will be recognized as income when received. During the three months ended September 30, 2014, the Company received an earn-out consideration payment and recognized a gain on sale, net of tax of $278,000.

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 chief executive officer and our chief financial officer, of the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on this evaluation, our chief executive officer and our chief financial officer have concluded that, as of the date of the evaluation, our disclosure controls and procedures were effective.

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 chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2014 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. Based on our evaluation under the framework in Internal Control-Integrated Framework (1992), our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

(b) Report of the registered public accounting firm

The report of KPMG LLP, the Company's independent registered public accounting firm, on the effectiveness of the Company's internal control over financial reporting is included in this Annual Report on Form 10-K.

(c) Changes in Internal Control over Financial Reporting

During the quarter ended December 31, 2014, no change was made to our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 2015 annual meeting of stockholders (the "2015 Proxy Statement"), which the Company intends to file with the Securities and Exchange Commission within 120 days of the Company's fiscal year ended December 31, 2014.

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 2015 Proxy Statement and is incorporated herein by reference.

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 2015 Proxy Statement and is incorporated herein by reference.

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

The information required under this item may be found in the 2015 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required under this item may be found in the 2015 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

1. The following 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, 2013 and 2014;
- Consolidated Statements of Operations for the years ended December 31, 2012, 2013 and 2014;
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 2012, 2013 and 2014;
- Consolidated Statements of Cash Flow for the years ended December 31, 2012, 2013 and 2014; 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.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Seattle, State of Washington on March 10, 2015.

MARCHEX, INC.

By: /S/ MICHAEL M. MILLER

Michael M. Miller
Senior VP Accounting and Corporate Controller
(Principal Accounting Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Peter Christothoulou and Michael A. Arends, jointly and severally, as his or her attorneys-in-fact, each with the full power of substitution, for him or her, in any and all capacities, to sign any amendment to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting to said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Date
/S/ PETER CHRISTOTHOULOU **Peter Christothoulou** **Chief Executive Officer** **(Principal Executive Officer)**	March 10, 2015
/S/ MICHAEL A. ARENDS **Michael A. Arends** **Chief Financial Officer** **(Principal Financial Officer)**	March 10, 2015
/S/ RUSSELL C. HOROWITZ **Russell C. Horowitz** **Executive Director**	March 10, 2015
/S/ DENNIS CLINE **Dennis Cline** **Director**	March 10, 2015
/S/ ANNE DEVEREUX – MILLS **Anne Devereux – Mills** **Director**	March 10, 2015

Signature	Date
/S/ NICOLAS J. HANAUER **Nicolas J. Hanauer** **Vice Chairman and Director**	March 10, 2015
/S/ CLARK KOKICH **Clark Kokich** **Executive Chairman and Director**	March 10, 2015
/S/ IAN MORRIS **Ian Morris** **Director**	March 10, 2015
/S/ M. WAYNE WISEHART **M. Wayne Wisehart** **Director**	March 10, 2015

EXHIBIT INDEX

Exhibit Number	Description of Document
2.1	Agreement and Plan of Merger, dated as of February 19, 2003, by and among the Registrant, Marchex Acquisition Corporation, eFamily.com, Inc., the Shareholders of eFamily.com, Inc., ah-ha.com, Inc. and Paul J. Brockbank, as Stockholder Representative (Filed with the Registrant's Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on December 11, 2003 and incorporated herein by reference).
2.2	Agreement and Plan of Merger, dated as of October 1, 2003, by and among the Registrant, Sitewise Acquisition Corporation, TrafficLeader, Inc., the Shareholders of TrafficLeader, Inc. and Gerald Wiant, as Shareholder Representative (Filed with the Registrant's Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on December 11, 2003 and incorporated herein by reference).
†††2.3	Agreement and Plan of Merger, dated as of July 21, 2004, by and among the Registrant, Project TPS, Inc., goClick.com, Inc. and the Sole Stockholder of goClick.com, Inc.
2.4	Asset Purchase Agreement, dated as of November 19, 2004, by and among the Registrant, Name Development Ltd. and the Sole Stockholder of Name Development Ltd. (Filed with the Registrant's Registration Statement on Form SB-2 (No. 333-121213) filed with the SEC on December 13, 2004 and incorporated herein by reference).
2.5	Asset Purchase Agreement, dated as of April 26, 2005, by and among the Registrant, Pike Street Industries, Inc. and the holders of all the issued and outstanding capital stock of Pike Street Industries, Inc. (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC on March 14, 2011 and incorporated herein by reference).
2.6	Agreement and Plan of Merger, dated as of July 27, 2005, by and among the Registrant, Einstein Holdings I, Inc., Einstein Holdings 2, LLC, IndustryBrains, Inc., the primary shareholders of IndustryBrains, Inc. and with respect to Articles II, VII and XII only, Eric Matlick as shareholder representative (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC on March 14, 2011 and incorporated herein by reference).
2.7	Asset Purchase Agreement, dated as of May 1, 2006, by and among the Registrant, MDNH, Inc., AreaConnect LLC and the holder of all of the issued and outstanding ownership interests of AreaConnect LLC (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on March 12, 2012 and incorporated herein by reference).
2.8	Asset Purchase Agreement, dated as of May 26, 2006, by and among the Registrant, MDNH, Inc., OpenList, Inc., Brian Harriman, the stockholders of OpenList, Inc., and with respect to the Articles VI and XI only, Brad Gerstner as stockholder representative (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on March 12, 2012 and incorporated herein by reference).
2.9	Agreement and Plan of Merger, dated as of August 9, 2007, by and among Registrant, VoiceStar, Inc., and the Shareholders of VoiceStar, Inc. (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC on March 12, 2013 and incorporated herein by reference).
+2.10	Agreement and Plan of Merger, dated as of April 7, 2011, by and among the Registrant, Marchex Acquisition Corporation, Jingle Networks, Inc. and with respect to Articles II, V and VIII only, Chip Hazard as the Stockholder Representative (Filed with the Registrant's Amendment No. 1 to the Registration Statement on Form S-3 (No. 333-174016) filed with the SEC on June 29, 2011 and incorporated herein by reference).
3.1	Certificate of Incorporation of the Registrant (Filed with the Registrant's Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on December 11, 2003 and incorporated herein by reference).

Exhibit Number	Description of Document
3.2	Amended and Restated Certificate of Incorporation of the Registrant (Filed with 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 and incorporated herein by reference).
3.3	By-laws of the Registrant (Filed with the Registrant's Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on December 11, 2003 and incorporated herein by reference).
3.4	Amended and Restated By-Laws of the Registrant . (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC on March 12, 2013 and incorporated herein by reference).
4.1	Specimen stock certificate representing shares of Class B Common Stock of the Registrant (Filed with 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 and incorporated herein by reference).
*10.1	Amended and Restated 2003 Stock Incentive Plan (Filed with 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 and incorporated herein by reference).
*10.2	Executive Employment Agreement, dated as of January 17, 2003, by and between Russell C. Horowitz and the Registrant (Filed with the Registrant's Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on December 11, 2003 and incorporated herein by reference).
*10.3	Executive Employment Agreement, dated as of May 1, 2003, by and between Michael A. Arends and the Registrant (Filed with the Registrant's Amendment No. 1 to the Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on February 19, 2004 and incorporated herein by reference).
*10.4	2004 Employee Stock Purchase Plan (Filed with the Registrant's Amendment No. 1 to the Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on February 19, 2004 and incorporated herein by reference).
10.5	Representative Director and Officer Indemnification Agreement, dated as of February 4, 2004, by and between Russell C. Horowitz and the Registrant (Filed with 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 and incorporated herein by reference).
+10.6	License Agreement, effective February 14, 2005, by and between Overture Services, Inc. and Registrant (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC on March 14, 2011 and incorporated herein by reference).
*10.7	2004 Employee Stock Purchase Plan, as amended on December 8, 2005 (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC on March 14, 2011 and incorporated herein by reference).
*10.8	Marchex, Inc. Annual Incentive Plan. (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on March 12, 2012 and incorporated herein by reference).
*10.9	Form of Restricted Stock Agreement (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC on March 12, 2013 and incorporated herein by reference).
*10.10	Form of Retention Agreement. (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on March 12, 2012 and incorporated herein by reference).

Exhibit Number	Description of Document
+10.11	Master Services and License Agreement dated as of October 1, 2007, by and between MDNH, Inc. and YellowPages.com LLC (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC on March 12, 2013 and incorporated herein by reference).
+10.12	Credit Agreement dated as of April 1, 2008, by and between the Registrant, the several banks and other financial institutions or entities from time to time parties to the agreement, and U.S. Bank National Association, as administrative agent (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC on March 3, 2014 and incorporated herein by reference).
†††*10.13	Form of Retention Agreement Amendment.
†††*10.14	Revised Form of Retention Agreement.
†††*10.15	Form of Restricted Stock Agreement Amendment (2003 Amended and Restated Stock Incentive Plan).
†††*10.16	First Amendment to Executive Employment Agreement effective as of May 8, 2009, by and between Michael A. Arends and the Registrant.
†††*10.17	Revised Form of Executive Restricted Stock Agreement (2003 Amended and Restated Stock Incentive Plan).
†††*10.18	Form of Director Restricted Stock Agreement (2003 Amended and Restated Stock Incentive Plan).
†††10.19	Amended and Restated Lease effective as of June 5, 2009, between 520 Pike Street, Inc. and the Registrant.
†††*10.20	Form of Executive Officer Stock Option Agreement (2003 Amended and Restated Stock Incentive Plan).
+10.21	Amendment No. 1 to Master Services and License Agreement effective as of April 30, 2010, by the between MDNH, Inc. and YellowPages.com LLC d/b/a AT&T Interactive and related Project Addendum No. 1, effective as of January 1, 2009, as amended (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2010 and incorporated herein by reference).
*10.22	Form of Notice of Grant of Executive Officer Stock Option (Performance-Based) (2003 Amended and Restated Stock Incentive Plan) (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2010 and incorporated herein by reference).
*10.23	Form of Notice of Grant of Executive Officer Stock Option (Time-Based) (2003 Amended and Restated Stock Incentive Plan) (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2010 and incorporated herein by reference).
*10.24	Form of Notice of Grant of Executive Officer Restricted Stock Units (2003 Amended and Restated Stock Incentive Plan) (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2010 and incorporated herein by reference).
*10.25	Form of Executive Officer Restricted Stock Agreement (2003 Amended and Restated Stock Incentive Plan) (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2010 and incorporated herein by reference).
*10.26	Form of Executive Officer Restricted Stock Units Agreement (2003 Amended and Restated Stock Incentive Plan) (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2010 and incorporated herein by reference).

Exhibit Number	Description of Document
+10.27	Amendments No. 1, 2 and 3 to YAHOO! Publisher Network Service Order, effective as of September 25, 2007, August 1, 2008 and June 1, 2010 respectively, by and between Yahoo! Inc., as successor in interest to Overture Services, Inc., and Yahoo! Sarl, as successor in interest to Overture Search Services (Ireland) Limited, MDNH, Inc. and MDNH International Ltd. (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2010 and incorporated herein by reference).
*10.28	Amendment to the Marchex, Inc. 2003 Amended and Restated Stock Incentive Plan (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2010 and incorporated herein by reference).
*10.29	Marchex, Inc. Amended and Restated Annual Incentive Plan (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC on March 14, 2011 and incorporated herein by reference).
10.30	First Amendment to the Credit Agreement made and entered into as of March 1, 2011, by and among the Registrant, the several banks and other financial institutions or entities from time to time parties to the agreement, and U.S. Bank National Association, as administrative agent (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on March 12, 2012 and incorporated herein by reference).
*10.31	Marchex, Inc. 2012 Stock Incentive Plan (Filed as Appendix A to the Registrant's Definitive Proxy Statement on Form 14A filed with the SEC on April 9, 2012 and incorporated herein by reference).
*10.32	Marchex, Inc. 2004 Employee Stock Purchase Plan, as amended on December 20, 2012 (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC on March 12, 2013 and incorporated herein by reference).
*10.33	Marchex, Inc. 2014 Employee Stock Purchase Plan, as amended on December 20, 2012 (Filed the as Appendix A to the Registrant's Definitive Proxy Statement on Form 14A filed with the SEC on April 3, 2013 and incorporated herein by reference).
*10.34	Form of Incentive Stock Option Notice and Agreement (2012 Stock Incentive Plan) (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 8, 2013 and incorporated herein by reference).
*10.35	Form of Nonstatutory Stock Option Notice and Agreement (2012 Stock Incentive Plan) (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 8, 2013 and incorporated herein by reference).
*10.36	Form of Restricted Stock Agreement (2012 Stock Incentive Plan) (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 8, 2013 and incorporated herein by reference).
*10.37	Form of Restricted Stock Units Notice and Agreement (2012 Stock Incentive Plan) (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 8, 2013 and incorporated herein by reference).
+10.38	Amendment No. 1 to Master Services and License Agreement, effective as of July 1, 2013, by and between Marchex Sales LLC, a Delaware limited liability company, and YellowPages.com LLC, a Delaware limited liability company (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 12, 2013 and incorporated herein by reference).
*10.39	Form of Indemnity Agreement (Section 16 Executive Officers and Directors) (Filed with the Registrant's Current Report on Form 8-K filed with the SEC on May 7, 2013 and incorporated herein by reference).

Exhibit Number	Description of Document
10.40	Second Amendment to the Credit Agreement made and entered into as of February 24, 2014, by and among the Registrant, the several banks and other financial institutions or entities from time to time parties to the agreement, and U.S. Bank National Association, as administrative agent (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC on March 3, 2014 and incorporated herein by reference).
+10.41	Professional Services Agreement originally dated as of January 29, 2010, by and between Allstate Insurance Company, an Illinois insurance company, and MDNH, Inc., a Delaware corporation and wholly owned subsidiary of Marchex, Inc., and such other affiliates that may be identified from time to time (Filed with the Registrant's Current Report on Form 8-K/A filed with the SEC on June 25, 2014 and incorporated herein by reference).
+10.42	Statement of Work (Call Advertising Services Project) effective January 1, 2014, by and between Marchex Sales, LLC (f/k/a Marchex Sales, Inc., f/k/a MDNH Inc.) and Allstate Insurance Company, an Illinois insurance company (Filed with the Registrant's Current Report on Form 8-K/A filed with the SEC on June 25, 2014 and incorporated herein by reference).
+10.43	Amended Statement of Work (Call Advertising Services Project) entered into on May 1, 2014 which amends the Statement of Work (Call Advertising Services Project) effective January 1, 2014, by and between Marchex Sales, LLC (f/k/a Marchex Sales, Inc., f/k/a MDNH, Inc.) and Allstate Insurance Company, an Illinois insurance company (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 11, 2014 and incorporated herein by reference).
+10.44	Pay-For-Call Distribution Agreement, by and between Yellowpages.com LLC, a Delaware limited liability company (d/b/a AT&T Interactive) and Marchex Sales, Inc., a Delaware corporation, effective as of January 1, 2011 (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 10, 2014 and incorporated herein by reference).
+10.45	Amendment No. 1 to Pay-For-Call Distribution Agreement, by and between Yellowpages.com LLC, a Delaware limited liability company (formally d/b/a AT&T Interactive or ATTi) and Marchex Sales LLC, a Delaware limited liability company and successor in interest to Marchex Sales, Inc., effective as of December 31, 2012 (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 10, 2014 and incorporated herein by reference).
†21.1	Subsidiaries of the Registrant.
†23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (incorporated herein by reference to the signature page of the Annual Report on Form 10-K)
†31(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(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	XBRL Instance Document.
†101.SCH	XBRL Taxonomy Extension Schema Document.
†101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
†101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
†101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
†101.PRE	XBRL Taxonomy Presentation Linkbase Document.

* Management contract or compensatory plan or arrangement.
(+) Certain information in this agreement has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been granted with respect to the omitted portions.
† Filed herewith.
†† Furnished herewith.
††† Refiled herewith pursuant to Regulation S-K Item 10.

Exhibit 2.3

AGREEMENT AND PLAN OF MERGER
BY AND AMONG
MARCHEX, INC.
PROJECT TPS, INC.
GOCLICK.COM, INC.
AND THE SOLE STOCKHOLDER OF GOCLICK.COM, INC.
DATED July 21, 2004

TABLE OF CONTENTS

Exhibits and Schedules to the Agreement and Plan of Merger have been omitted. The following is a list of omitted Exhibits and Schedules which the Registrant agrees to furnish supplementally to the Commission upon request:

Exhibits

A-1 Certificate of Merger (Delaware)
A-2 Certificate of Merger (Connecticut)
B Form of Escrow Agreement
C Form of Consultant Agreement
D Form of Registration Rights Agreement
E Form of Transition Services Agreement
F Form of Termination Agreement & General Release

Schedules

2.2 Exchange Ratios; Aggregate Cash Consideration; Aggregate Equity Consideration

Company Disclosure Schedules

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AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER (the "Agreement") dated as of July 21, 2004, by and among Marchex, Inc., a corporation organized under the laws of the State of Delaware (the "Parent"), Project TPS, Inc., a corporation organized under the laws of the State of Delaware and a wholly-owned subsidiary of the Parent (the "Acquisition Corp."), goClick.com, Inc., a corporation organized under the laws of the State of Connecticut (the "Company") and John Babina III, the holder of all of the issued and outstanding capital stock of the Company (the "Sole Stockholder").

WHEREAS, the respective Boards of Directors of the Parent, Acquisition Corp. and the Company have approved the merger of Acquisition Corp. with and into the Company (the "Merger"), pursuant to which the Company will be the surviving corporation and the Sole Stockholder will be entitled to receive the consideration provided for in this Agreement, all upon the terms and subject to the conditions set forth herein; and

WHEREAS, as a condition and inducement to Parent's willingness to enter into this Agreement, the Sole Stockholder has signed this Agreement and has signed and delivered herewith to Parent irrevocable proxies or written consents adopting and approving this Agreement, the Merger and the other transactions contemplated hereby;

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements set forth herein, and intending to be legally bound hereby, the parties hereby agree as follows:

ARTICLE I

THE MERGER

1.1 The Merger. (a) At the Effective Time (as defined in Section 1.2), and subject to and upon the terms and conditions of this Agreement, the Certificates of Merger (as defined in Sections 1.2), the Delaware General Corporation Law (the "DGCL") and the Connecticut General Statutes (the "CGS"), Acquisition Corp. shall be merged with and into the Company, the separate existence of Acquisition Corp. shall cease, and the Company shall continue as the surviving corporation. The Company as the surviving corporation after the Merger is hereinafter sometimes referred to as the "Surviving Corporation."

(b) Closing. Unless this Agreement shall have been terminated and the transactions herein contemplated shall have been abandoned pursuant to Article XI and subject to the satisfaction or waiver of the conditions set forth in Articles IX and X, the consummation of the Merger (the "Closing") will take place as promptly as practicable (and in any event within two (2) business days) after satisfaction or waiver of the conditions set forth in Articles IX and X, at the offices of Nixon Peabody LLP, 437 Madison Avenue, New York, New York 10022 unless another date, time or place is agreed to in writing by the Company and the Parent. The date of such Closing is referred to herein as the "Closing Date."

1.2 Effective Time. As promptly as practicable after the satisfaction or waiver of the conditions set forth in Articles IX and X, the parties hereto shall cause the Merger to be consummated by filing articles or certificate of merger as contemplated by the DGCL and the CGS in the forms of Exhibit A-1 and Exhibit A-2 attached hereto (the "Certificates of Merger"), together with any required related certificates, with the Secretary of State of the State of Delaware and the Secretary of State of the State of Connecticut, in such form as required by, and executed in accordance with the relevant provisions of, the DGCL and the CGS (the time of such filing being the "Effective Time").

1.3 Effect of the Merger. At the Effective Time, the effect of the Merger shall be as provided in this Agreement, the Certificates of Merger and the applicable provisions of the DGCL and the CGS. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all the property, rights, privileges, powers and franchises of the Company and Acquisition Corp. shall vest in the Surviving Corporation, and all debts, liabilities and duties of the Company and Acquisition Corp. shall become the debts, liabilities and duties of the Surviving Corporation, all without further act or deed.

1.4 Certificate of Incorporation; By-Laws.

(a) Certificate of Incorporation. At the Effective Time, the Certificate of Incorporation of the Company as in effect immediately prior to the Effective Time, shall be the Certificate of Incorporation of the Surviving Corporation, until thereafter amended in accordance with CGS and such Certificate of Incorporation.

(b) By-Laws. At Effective Time, the By-Laws of the Company, as in effect immediately prior to the Effective Time, shall be the By-Laws of the Surviving Corporation until thereafter amended in accordance with CGS, the Certificate of Incorporation of the Surviving Corporation and such By-Laws.

1.5 Directors and Officers. The directors of the Acquisition Corp. immediately prior to the Effective Time shall be the initial directors of the Surviving Corporation from and after the Effective Time, each to hold office in accordance with the Certificate of Incorporation and By-Laws of the Surviving Corporation, and the officers of the Acquisition Corp. immediately prior to the Effective Time shall be the initial officers of the Surviving Corporation from and after the Effective Time, in each case until their respective successors are duly elected or appointed and qualified.

1.6 Additional Actions. If, at any time after the Effective Time, the Surviving Corporation shall consider or be advised that any deeds, bills of sale, assignments, assurances or any other acts or things are necessary or desirable to vest, perfect or confirm, of record or otherwise, in the Surviving Corporation, its right, title or interest in or to any of the rights, properties or assets of Acquisition Corp. or the Company acquired or to be acquired by reason of, or as a result of, the Merger, or otherwise to carry out the purposes of this Agreement, the Surviving Corporation and its proper officers and directors shall be authorized to execute and deliver, in the name and on behalf of Acquisition Corp. or the Company, all such deeds, bills of

sale, assignments and assurances and to do, in the name and on behalf of Acquisition Corp. or the Company, all such other acts and things necessary or desirable to vest, perfect or confirm any and all right, title or interest in, to or under such rights, properties or assets in the Surviving Corporation or otherwise to carry out the purposes of this Agreement.

1.7 Withholding. Parent, the Surviving Corporation or the Company shall be entitled to deduct and withhold from any Merger Consideration (as hereinafter defined) payable or otherwise deliverable pursuant to this Agreement, such amounts as Parent, the Surviving Corporation or the Company may be required to pay, deduct or withhold therefrom under the U.S. Internal Revenue Code of 1986, as amended (the "Code") or under any provision of state, local or foreign tax law resulting from the transactions contemplated herein. To the extent such amounts are so paid, deducted or withheld, such amounts shall be treated for all purposes under this Agreement as having been paid to the person to whom such amounts would otherwise have been paid.

ARTICLE II

CONSIDERATION; CONVERSION OF SHARES

2.1 Total Merger Consideration. The consideration payable in the Merger to the holders of shares of the Company's Common Stock, no par value per share (the "Common Stock") shall consist of (a) that number of shares of Class B Common Stock, $0.01 par value per share, of the Parent (the "Parent Common Stock") as shall be obtained by dividing $4,250,000 by the Closing Market Price (as hereinafter defined) (the "Equity Consideration"), and (b) $8,229,750 (the "Cash Consideration"). Such Equity Consideration and Cash Consideration which shall be issuable or payable at the Closing, as the case may be, as provided herein shall in the aggregate be referred to as the "Merger Consideration". For purposes of this Agreement, the term "Closing Market Price" shall mean $9.803, the average of the last quoted sale price for shares of Parent Common Stock on The Nasdaq National Market for the ten (10) trading days immediately prior to the date of execution hereof.

2.2 Conversion of Shares.

(a) Conversion of Shares. Each share of Common Stock issued and outstanding as of the Effective Time (other than shares owned by holders who have properly exercised their rights of appraisal within the meaning of Section 33-856 of the CGS ("Dissenting Shares")) shall, by virtue of the Merger and without any action on the part of the holder thereof, automatically be converted into (A) an amount in cash equal to the quotient obtained by dividing (x) the Cash Consideration by (y) the total number of Fully Diluted Shares (as herein defined) as of the Effective Time and (B) that number of shares of Parent Common Stock as shall be obtained by dividing (xx) the Equity Consideration by (yy) the total number of Fully Diluted Shares (as herein defined) as of the Effective Time. Such resulting quotients are referred to herein as the "Exchange Ratio." "Fully Diluted Shares" shall be equal to the total number of outstanding shares of Common Stock, immediately prior to the Closing Date, calculated on a fully diluted, fully converted basis as though all convertible debt and equity securities and

options (whether vested or unvested) and warrants had been converted or exercised. Schedule 2.2 attached hereto sets forth, with respect to the Merger Consideration, (i) the Exchange Ratio, (ii) the aggregate cash payment to be paid in connection with the Merger to the Sole Stockholder (iii) and the aggregate Equity Consideration to be issued in connection with the Merger to the Sole Stockholder.

(b) Treasury Shares. Each share of Common Stock held in the Company's treasury as of the Effective Time, if any, shall, by virtue of the Merger, be canceled without payment of any consideration therefor.

(c) [Reserved].

(d) Acquisition Corp. Shares. Each share of common stock, par value $0.01 per share, of Acquisition Corp. issued and outstanding as of the Effective Time shall, by virtue of the Merger and without any action on the part of the holder thereof, automatically be converted into one fully paid and nonassessable share of common stock of the Surviving Corporation, as such shares of common stock are constituted immediately following the Effective Time.

2.3 Exchange of Certificates.

(a) At the Closing, certificates (the "Certificates") representing all of the issued and outstanding shares of Common Stock shall be surrendered for cancellation and termination in the Merger. At the Effective Time, each Certificate shall be canceled in exchange for the amount of Merger Consideration pursuant to Section 2.2(a). After payment of all fees and expenses incurred by the Company in connection with this Agreement in accordance with Section 7.5 from the Cash Consideration portion of the Merger Consideration, the Merger Consideration shall be distributed as follows to the extent Certificates have been surrendered, at Closing (or thereafter upon surrender of Certificates): (i) Parent shall cause the remaining Cash Consideration to be wired to an account designated by the Sole Stockholder, less $822,975 which shall be placed in escrow to satisfy the obligations pursuant to Article XII hereof (the "Cash Escrow"), and (ii) Parent shall cause the Equity Consideration to be distributed to the Sole Stockholder in the amount set forth on Schedule 2.2, less that number of shares of Parent Common Stock issued as part of the Equity Consideration as shall be obtained by dividing $425,000 by the Closing Market Price which shall be placed in escrow to satisfy the obligations pursuant to Article XII hereof (the "Equity Escrow"). Until surrendered, each outstanding Certificate which immediately prior to the Effective Time represented shares of Common Stock shall be deemed for all corporate purposes to evidence ownership of the amount of cash and shares of Parent Common Stock issuable upon conversion of such shares of Common Stock, but shall, have no other rights. From and after the Effective Time, the holders of shares of Common Stock shall cease to have any rights in respect of such shares and their rights shall be solely in respect of the amount of cash and shares of Parent Common Stock into which such shares of Common Stock have been converted.

(b) If any cash is to be paid or any shares of Parent Common Stock are to be issued in the name of a person other than the person in whose name the Certificate(s) surrendered

in exchange therefor is registered, it shall be a condition to the payment of such cash or the issuance of such shares that (i) the Certificate(s) so surrendered shall be transferable, and shall be properly assigned, endorsed or accompanied by appropriate stock powers, (ii) such transfer shall otherwise be proper and (iii) the person requesting such transfer shall pay Parent, or its exchange agent, any transfer or other taxes payable by reason of the foregoing or establish to the reasonable satisfaction of Parent that such taxes have been paid or are not required to be paid. Notwithstanding the foregoing, neither Parent nor the Company shall be liable to a holder of shares of Common Stock for cash paid to such holder pursuant to the provisions of Section 2.2(a) of this Agreement that are delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

(c) In the event any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed, Parent shall issue in exchange for such lost, stolen or destroyed Certificate the cash or shares issuable in exchange therefor pursuant to the provisions of Section 2.2(a) of this Agreement. The Board of Directors of Parent may in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed Certificate to provide to Parent an indemnity agreement against any claim that may be made against Parent with respect to the Certificate alleged to have been lost, stolen or destroyed.

2.4 No Fractional Securities. No fractional shares of Parent Common Stock shall be issuable by the Parent upon the conversion of shares of Common Stock in the Merger pursuant to Section 2.2(a) hereof. In lieu of any such fractional shares, each holder of Common Stock who would otherwise have been entitled to receive a fraction of a share of Parent Common Stock shall be entitled to receive instead an amount in cash equal to such fraction multiplied by the Closing Market Price.

2.5 Stock Transfer Books. At the Effective Time, the stock transfer books of the Company shall be closed, and there shall be no further registration of transfers of Common Stock thereafter on the records of the Company.

2.6 No Further Ownership Rights in Common Stock. The amount of cash delivered and number of shares issued upon the surrender for exchange of shares of Common Stock in accordance with the terms hereof shall be deemed to have been issued in full satisfaction of all rights pertaining to such shares, and there shall be no further registration of transfers on the records of the Surviving Corporation of shares of Common Stock which were outstanding immediately prior to the Effective Time. If, after the Effective Time, certificates for shares of Common Stock are presented to the Surviving Corporation for any reason, they shall be canceled and exchanged as provided in this Article II.

2.7 Escrow. As soon as practicable after the Closing and in any event within five (5) business days after the Closing, Parent will at its expense deposit in escrow on behalf of the Sole Stockholder the Cash Escrow and Equity Escrow (which shall reduce the amount of Cash Consideration and shares of Equity Consideration otherwise issuable to such Sole Stockholder) (collectively, the “Escrow Deposit”). The Escrow Deposit shall be held by and registered in the

name of U.S. Bank National Association, as Escrow Agent, as security for the indemnification obligations under Article XII pursuant to the provisions of an Escrow Agreement (the "Escrow Agreement") in the form of Exhibit B attached hereto.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE SOLE STOCKHOLDER

The Company and the Sole Stockholder jointly and severally represent and warrant to the Parent and Acquisition Corp. as set forth below, subject to the exceptions set forth in the disclosure schedules hereto (the "Company Disclosure Schedules"), the section numbers and letters of which correspond to the section and subsection numbers and letters of this Agreement.

3.1 Corporate Organization.

The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Connecticut. The Company has all requisite corporate power and authority to own, operate and lease the properties and assets it now owns, operates and leases and to carry on its business as presently conducted. The Company is duly qualified to transact business as a foreign corporation and is in good standing in the jurisdictions set forth in Schedule 3.1(a) hereto, which are the only jurisdictions where such qualification is required by reason of the nature of the properties and assets currently owned, operated or leased by it or the business currently conducted by it, except for such jurisdictions where the failure to be so qualified would not have a Company Material Adverse Effect (as defined below). The Company has previously delivered to the Parent complete and correct copies of the Certificate of Incorporation of the Company (certified by the secretary of state of the jurisdiction in which it was formed as of a recent date) and the By-Laws of the Company (certified by the Secretary of the Company as of a recent date). Neither the Company's Certificate of Incorporation nor its By-Laws have been amended since the date of certification thereof, nor has any action been taken for the purpose of effecting any amendment of such instrument. The term "Company Material Adverse Effect" means, for purposes of this Agreement, any change, event or effect that is, or that is reasonably likely to be, materially adverse to the business, operations, assets, liabilities, financial condition, results of operations or prospects of the Company.

3.2 Authorization. The Company has full corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly approved by the Board of Directors of the Company and adopted by the Sole Stockholder and no other proceeding on the part of the Company is necessary to approve and authorize the execution and delivery of this Agreement or (subject to the filing of the Certificates of Merger pursuant to the DGCL and the CGS) the consummation of the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Company and constitutes the valid and binding agreement of the Company enforceable in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy,

reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally and by general principles of equity, regardless of whether such enforceability is considered in a proceeding in law or in equity.

3.3 Consents and Approvals; No Violations. Subject to (a) the filing of the Certificates of Merger with the Secretary of State of the State of Delaware and with the Secretary of State of the State of Connecticut, respectively, and (b) compliance with applicable federal and state securities laws, the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not: (i) violate or conflict with any provision of the Certificate of Incorporation or By-Laws of the Company, (ii) breach, violate or constitute an event of default (or an event which with the lapse of time or the giving of notice or both would constitute an event of default) under, give rise to any right of termination, cancellation, modification or acceleration under, or require any consent or the giving of any notice under, any note, bond, indenture, mortgage, security agreement, lease, license, franchise, permit, agreement or other instrument or obligation to which the Company is a party, or by which the Company or any of its properties or assets may be bound, or result in the creation of any lien, claim or encumbrance or other right of any third party of any kind whatsoever upon the properties or assets of the Company pursuant to the terms of any such instrument or obligation, (iii) violate or conflict with any law, statute, ordinance, code, rule, regulation, judgment, order, writ, injunction, decree or other instrument of any federal, state, local or foreign court or governmental or regulatory body, agency, association, organization or authority applicable to the Company or by which its properties or assets may be bound, except for such violations and conflicts which would not have a Company Material Adverse Effect, or (iv) require, on the part of the Company, any filing or registration with, or permit, license, exemption, consent, authorization or approval of, or the giving of any notice to, any governmental or regulatory body, agency or authority, other than any filing, registration, permit, license, exemption, consent, authorization, approval or notice which if not obtained would not have a Company Material Adverse Effect.

3.4 Capitalization.

(a) The authorized capital stock of the Company consists of (i) 20,000 shares of Common Stock of which 100 shares of Common Stock are issued and outstanding. The beneficial and record ownership of all of the outstanding shares of Common Stock is set forth on Schedule 3.4(a) attached hereto. All outstanding shares of Common Stock (i) are duly authorized, validly issued, fully paid and nonassessable (ii) were not issued in violation of any pre-emptive rights or federal or state securities laws and (iii) are not subject to preemptive rights created by statute, the Certificate of Incorporation or By-Laws of Company or any agreement or document to which Company is a party or by which it is bound.

Except as set forth above, as of the date of this Agreement no shares of Common Stock, other equity securities, partnership interests or similar ownership interests or other voting securities of the Company or any securities exchangeable or convertible into or exercisable for such capital stock, other equity securities, partnership interests or similar ownership interests or other voting securities of the Company, were issued, reserved for issuance or outstanding. There are no outstanding stock appreciation rights with respect to shares of Common Stock. There are

no bonds, debentures, notes or other indebtedness of the Company having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which stockholders of the Company may vote. Except as set forth above, there are no securities, partnership interests or similar ownership interests, options, warrants, calls, rights (including pre-emptive rights) or commitments, understandings, arrangements, agreements or contracts (either written or oral) of any kind to which the Company is a party, or by which the Company is bound, obligating the Company to issue, deliver or sell, or cause to be issued, delivered or sold, any shares of capital stock or other securities of the Company or obligating the Company to issue, grant, extend, accelerate the vesting of or enter into any such security, partnership interest or similar ownership interest, option, warrant, call, right, commitment, understanding, arrangement, agreement or contract (either written or oral).

There are no securities, partnership interests or similar ownership interests, options, warrants, calls, rights (including pre-emptive rights) or commitment, understanding, arrangement, agreement or contract (either written or oral) of any kind to which the Company is a party, or by which the Company is bound, obligating the Company to repurchase, redeem or otherwise acquire, or cause the repurchase, redemption or acquisition of, any shares of Common Stock or other securities of the Company. The Company has never repurchased, redeemed or otherwise acquired or caused the repurchase, redemption or acquisition of any shares of capital stock or other securities of the Company, and there are no amounts owed or which may be owed to any person by the Company as a result of any repurchase, redemption or acquisition of any shares of Common Stock or other securities of the Company. There is no claim or basis for such a claim to any portion of the Merger Consideration except as provided in Section 2.2 or Schedule 2.2 hereto by any current or former stockholder, option holder or warrant holder of the Company, or any other person.

There are no registration rights, and, to the knowledge of the Company and the Sole Stockholder, there are no voting trusts, proxies or agreements or understandings with respect to any equity security of any class of securities of the Company.

(b) The Company does not own, directly or indirectly, any equity securities, or options, warrants or other rights to acquire equity securities, or securities convertible into or exchangeable for equity securities, of any other corporation, or any partnership interest in any general or limited partnership or unincorporated joint venture.

3.5 Financial Statements; Business Information. (a) Attached hereto as Schedule 3.5(a) are (i) the unaudited balance sheets of the Company as of December 31, 2002 and December 31, 2003 and the statements of operations and cash flow for the fiscal periods then ended, and (ii) the balance sheet of the Company as of June 30, 2004 and the statements of operations and cash flow of the Company for the six (6) months then ended (hereinafter collectively referred to as the “Financial Statements”). The Financial Statements (i) have been prepared from the books and records of the Company, (ii) have been prepared in accordance with GAAP (as hereinafter defined) consistently applied during the periods covered thereby, and (iii) present fairly in all material respects the financial condition and results of operations of the Company as at the dates, and for the periods, stated therein, except that the interim Financial

Statements are subject to normal year-end adjustments which will not be individually or in the aggregate material in amount or effect. For the purposes of this Agreement, generally accepted accounting principles shall mean generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board and rules promulgated by the United States Securities and Exchange Commission (the "SEC") and its related interpretations or in such other statements by such other entity as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination ("GAAP").

(b) Schedule 3.5(b) attached hereto sets forth certain statistics as of June 30, 2004 (including, but not limited to, information related to the Company's products, services and websites such as (i) average uptime of the Company's websites, servers and associated production systems on a monthly basis for the 2004 period, (ii) number of accepted click throughs for the months of April, May and June of 2004, (iii) average revenue per click through for the months of April, May and June of 2004, and (iv) number of active advertisers and distribution partners) regarding the Company's business (the "Data") which are true and correct in all material respects as of the dates stated in the schedule. To the extent the Company has provided compilations of Data, this representation shall only extend to the Data provided.

3.6 Absence of Undisclosed Liabilities. Except (i) as set forth or reserved against in the balance sheet of the Company dated as of June 30, 2004, included in the Financial Statements (the "Balance Sheet") and (ii) for obligations and liabilities incurred since June 30, 2004 in the ordinary course of business, which do not individually or in the aggregate exceed $10,000, the Company does not have any liabilities or obligations of any nature, whether accrued, absolute, contingent or otherwise, of the type required to be reflected or disclosed on a balance sheet or the notes thereto as required according to GAAP. Schedule 3.6 sets forth a true and correct aged list of all accounts payable of the Company as of the date of execution hereof.

3.7 Absence of Certain Changes or Events. Except as set forth on Schedule 3.7 hereto, since December 31, 2003, the Company has carried on its business in all material respects in the ordinary course and consistent with past practice. Except as set forth on Schedule 3.7 or as set forth or reserved against in the Balance Sheet, since December 31, 2003, the Company has not: (i) incurred any material obligation or liability (whether absolute, accrued, contingent or otherwise) except in the ordinary course of business and consistent with past practice; (ii) experienced any Company Material Adverse Effect; (iii) made any change in accounting principle or practice or in their respective method of applying any such principle or practice, (iv) suffered any material damage, destruction or loss, whether or not covered by insurance, affecting its respective properties, assets or business; (v) mortgaged, pledged or subjected to any lien, charge or other encumbrance, or granted to third parties any rights in, any of its properties or assets, tangible or intangible; (vi) sold or transferred any of its assets, except in the ordinary course of business and consistent with past practice, or canceled or compromised any debts or waived any claims or rights of a material nature; (vii) issued any additional Company securities, other equity securities, partnership interests or similar equity interests, or any rights, options or warrants to purchase, or securities convertible into or exchangeable for, Company securities;

(viii) declared or paid any dividends on or made any distributions (however characterized) in respect of Company securities; (ix) repurchased or redeemed any Company securities; (x) terminated, amended or waived with respect to any material contract, any material right, except in the ordinary course of business and consistent with past practice; (xi) granted any general or specific increase in the compensation payable or to become payable to any of its Employees (as that term is hereinafter defined) or any bonus or service award or other like benefit, or instituted, increased, augmented or improved any Benefit Plan (as that term is hereinafter defined); or (xii) entered into any agreement to do any of the foregoing.

3.8 Legal Proceedings, etc. There are no suits, actions, claims, proceedings (including, without limitation, arbitral or administrative proceedings) pending or, to the knowledge of the Company or the Sole Stockholder, investigations pending or any of the foregoing threatened against the Company or its properties, assets or business or, to the knowledge of the Company or the Sole Stockholder, pending or threatened against any of the officers, directors, employees, agents or consultants of the Company in connection with the business of the Company. There are no such suits, actions, claims, proceedings pending against the Company or, to the knowledge of the Company or the Sole Stockholder, investigations pending or any of the foregoing threatened against the Company challenging the validity or propriety of the transactions contemplated by this Agreement. There is no judgment, order, injunction, decree or award (whether issued by a court, an arbitrator or an administrative agency) to which the Company is a party, or involving the properties, assets or business of the Company, which is unsatisfied or which requires continuing compliance therewith by the Company. Schedule 3.8 hereto sets forth all settlements, judgments, orders, injunctions, decrees and awards entered into or imposed which the Company is a party to or by which the Company is bound, and the Company is and has been at all times in compliance with the terms of such settlements, judgments, orders, injunctions, decrees and awards. Schedule 3.8 hereto sets forth all suits, actions, claims, proceedings or investigations regarding any equity security of the Company which the Company or the Sole Stockholder has ever been involved in or received notice of.

3.9 Taxes.

(a) The Company has properly and timely filed all Tax Returns (as hereinafter defined) and other filings in respect of Taxes (as hereinafter defined) required to be filed by it on or prior to the date hereof, and has in a timely manner paid all Taxes which are (or will be) due for all periods ending on or before the date hereof, whether or not shown on such Tax Returns, except to the extent the Company has established adequate reserves in accordance with GAAP (excluding accruals and reserves for deferred Taxes established to reflect timing differences between book and Tax income) on the Balance Sheet for such Taxes and disclosed the dollar amount and the components of such reserves on Schedule 3.9(a) hereof. The Company will establish, in the ordinary course of business and consistent with its past practices, reserves (other than reserves for deferred Taxes established to reflect timing differences between book and Tax income) adequate for the payment of all Taxes of the Company for the period from date of the Balance Sheet through the Closing Date, and the Company will disclose the dollar amount of such reserves to Parent on or prior to the Closing Date. Since the date of the Balance Sheet, the Company has not incurred any liability for Taxes arising from extraordinary gains or losses, as

that term is used in GAAP, outside the ordinary course of business consistent with past custom and practice. All such Tax Returns have been accurately and completely prepared in all material respects in compliance with all laws, rules and regulations.

(b) There are no actions or proceedings currently pending or, to the knowledge of the Company or the Sole Stockholder, threatened against the Company by any governmental authority for the assessment or collection of Taxes, no claim for the assessment or collection of Taxes has been asserted against the Company and there are no matters under discussion by the Company with any governmental authority regarding claims for the assessment or collection of Taxes. Any Taxes that have been claimed or imposed as a result of any examinations of any Tax Return of the Company by any governmental authority have been paid or are being contested in good faith and have been disclosed in writing to the Parent. There are no agreements or applications by the Company for an extension of time for the assessment or payment of any Taxes nor any waiver of the statute of limitations in respect of Taxes. There are no Tax liens on any of the assets of the Company, except for liens for Taxes not yet due or payable.

(c) For the purposes of the Agreement, "Tax" or "Taxes" means all federal, state and local, territorial and foreign taxes, levies, deficiencies or other assessments and other charges of whatever nature (including income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, backup withholding, social security, unemployment, disability, real property, personal property, sales, use, transfer, real property gains, registration, value added, alternative or add-on minimum, and estimated taxes and workers' compensation premiums and other governmental charges, and other obligations of the same nature as or of a nature similar to any of the foregoing) imposed by any taxing authority, as well as any obligation to contribute to the payment of Taxes determined on a consolidated, combined or unitary basis with respect to the Company or any affiliate, and including any transferee liability in respect of any tax (whether imposed by law, contractual agreement or otherwise) and any liability in respect of any tax as a result of being a member of any affiliated, consolidated, combined unitary or similar group including any liability pursuant to Treasury Regulation Section 1.1502-6, including any interest, penalty (civil or criminal), or addition thereto, whether disputed or not, as well as any expenses incurred in connection with the determination, settlement or litigation of any liability.

For purposes of this Agreement, the term "Tax Return" means any federal, state, local and foreign return, declaration, report, claim for refund, amended return, declarations of estimated Tax or information return or statement relating to Taxes, and any schedule or attachment thereto, filed or maintained, or required to be filed or maintained in connection with the calculation, determination, assessment or collection of any Tax, and including any amendment thereof, as well as, where permitted or required, combined or consolidated returns for any group of entities that include the Company or any affiliate; and reports with respect to backup withholding and other payments to third parties.

(d) The Company is not and has not been a party to or bound by any tax indemnity agreement, tax sharing agreement, tax allocation agreement or similar agreement or arrangement.

(e) The Company has withheld all amounts from its respective employees and other persons required to be withheld under the tax, social security, unemployment and other withholding provisions of all federal, state, local and foreign laws, and has complied with all information reporting and back-up withholding requirements, including maintenance of required records with respect thereto, in connection with amounts paid or owing to any employee, creditor, independent contractor, or other third party.

(f) No power of attorney has been granted by the Company or is currently in force with respect to any matter relating to Taxes.

(g) To the knowledge of the Sole Stockholder, the Company is not a party to any joint venture, partnership or other arrangement that is treated as a partnership for federal income tax purposes.

(h) The Company has not received any written ruling of a taxing authority relating to Taxes or entered in any written and legally binding agreement with a taxing authority relating to taxes, including any closing agreements under Section 7121 of the Code.

(i) No claim has ever been made in writing by any authority in a jurisdiction where the Company does not file Tax Returns that it is or may be subject to taxation by that jurisdiction, and the Company does not do business in any state, local, territorial or foreign taxing jurisdiction other than those for which Tax Returns have been furnished to the Parent.

(j) The Company has delivered or made available to the Parent for inspection true and complete copies of (i) all private letter rulings, revenue agent reports, information document requests, audit reports, notices of proposed deficiencies, deficiency notices, protests, petitions, closing agreements, settlement agreements, pending ruling requests and any similar documents submitted by, received by or agreed to by or on behalf of the Company relating to Taxes for all taxable periods for which the applicable statute of limitations has not yet expired, and (ii) all federal and state income or franchise Tax Returns for the Company for all periods for which the statute of limitations has not run.

(k) The Company has not made any payments, is not obligated to make any payment, and is not a party to any agreement, contract, arrangement or plan that under any circumstances could obligate it to make any payment that will not be deductible under Section 280G of the Code, or that would be subject to an excise Tax under Section 4999 of the Code.

(l) Schedule 3.9(l) attached hereto sets forth each jurisdiction (other than United States federal) in which the Company files or has been required to file a Tax Return or has been liable for Taxes on a “nexus” basis.

(m) At all times since its incorporation, the Company (and any predecessor of the Company) has been a validly electing S corporation within the meaning of Sections 1361 and 1362 of the Code, as well as for state income or franchise tax purposes in states that recognize S corporation status and where the Company is required to file income or franchise tax returns, and the Company will be an S corporation up to and including the day of the Closing Date. The Company has at no time prior to the Closing Date held any equity interest in an entity classified as a corporation nor operated a foreign branch.

(n) The Sole Stockholder has timely reported his distributive share of the Company's income, gain, loss, deduction and other tax items on his Tax Returns and paid all taxes due with respect to all income, gain, loss, deduction and other tax items of the Company for periods ending on or before December 31, 2003 and will do so with respect to all income, gain, loss, deduction and other tax items of the Company for the period ending on the Closing Date.

(o) The Company would not be liable for any Tax under Section 1374 if its assets were sold at their fair market value at the Closing Date, and the Company has not in the past ten (10) years acquired assets from another corporation in a transaction in which the Company's Tax basis for the acquired assets was determined, in whole or in part, by reference to the Tax basis of the acquired assets (or any other property) in the hands of the transferor.

(p) The Company has not engaged in a "listed transaction" within the meaning of Treas. Reg. §1.6011-4T(b) other than those that are not reasonably likely to have a Company Material Adverse Effect.

3.10 Title to Properties and Related Matters. (a) The Company has good and valid title to all personal property, tangible or intangible, which the Company purports to own, including the properties reflected on the Balance Sheet or acquired after the date thereof (other than properties and assets sold or otherwise disposed of in the ordinary course of business and consistent with past practice since June 30, 2004, free and clear of any claims, liens, pledges, security interests or encumbrances of any kind whatsoever (other than (i) purchase money security interests and common law vendor's liens, in each case for goods purchased on open account in the ordinary course of business and having a fair market value of less than $10,000 in each individual case), (ii) liens for Taxes not yet due and payable and (iii) such imperfections of title and encumbrances, if any, that are not material in character, amount or extent and that do not materially detract from the value, or materially interfere with the use of, the property subject thereto or affected thereby. Collectively, such property and the Company Intellectual Property disclosed on Schedule 3.11 hereto constitute all property, tangible or intangible, necessary to conduct the business of the Company as presently conducted.

(b) Except as set forth on Schedule 3.10(d) hereto, the Company does not own any real property or any interest in real property.

(c) Schedule 3.10(c) hereto sets forth a list, which is correct and complete in all material respects, of all equipment, machinery, instruments, vehicles, furniture, fixtures and

other items of personal property currently owned or leased by the Company with a book value as of June 30, 2004, in each case of $10,000 or more. Except as set forth on Schedule 3.10(c) hereto, all such personal property is in suitable operating condition (ordinary and reasonable wear and tear excepted) and is physically located in or about one of the places of business of the Company and is owned by the Company or is leased by the Company under one of the leases set forth in Schedule 3.10(d) hereto. None of such personal property is subject to any agreement or commitment for its use by any person other than the Company. The maintenance and operation of such personal property has been in conformance with all applicable material laws and regulations. Except as set forth on Schedule 3.10(d) hereto, there are no assets leased by the Company or used in the operation of the Company that are owned, directly or indirectly, by any Related Person (as that term is hereinafter defined in Section 3.21).

(d) Schedule 3.10(d) sets forth a complete and correct list of all real property and personal property leases to which the Company is a party. The Company has previously delivered to the Parent complete and correct copies of each lease (and any amendments or supplements thereto) listed in Schedule 3.10(d) hereto. Except as set forth on Schedule 3.10(d) hereto, (i) each such lease is valid and binding, and in full force and effect; except to the extent that applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights may affect such validity or enforceability, (ii) neither the Company nor (to the knowledge of the Company or the Sole Stockholder) any other party is in default under any such lease, and no event has occurred which constitutes, or with the lapse of time or the giving of notice or both would constitute, a default by the Company or (to the knowledge of the Company or the Sole Stockholder) a default by any other party under such lease; (iii) to the knowledge of the Company or the Sole Stockholder, there are no disputes or disagreements between the Company and any other party with respect to any such lease; and (iv) except as set forth on Schedule 3.10(d), there is no requirement under any such lease that the Company either obtain the lessor's consent to, or notify the lessor of, the consummation of the transactions contemplated by this Agreement.

3.11 Intellectual Property; Proprietary Rights; Employee Restrictions. For the purposes of this Agreement, the following terms have the following definitions:

"Intellectual Property" shall mean any or all of the following and all rights in, arising out of, or associated therewith: (i) all United States, international and foreign patents and applications therefor and all reissues, divisions, renewals, extensions, provisionals, continuations and continuations-in-part thereof; (ii) all inventions (whether patentable or not), invention disclosures, improvements, trade secrets, proprietary information, know how, technology, technical data and customer lists, computer programs and other computer software, user interfaces, processes and formulae, source code, object code, algorithms, architecture, structure, display screens, layouts, development tools, instructions, templates and marketing materials, designs and all documentation relating to any of the foregoing; (iii) all copyrights, copyrights registrations and applications therefor, and all other rights corresponding thereto throughout the world; (iv) all industrial designs and any registrations and applications therefor throughout the world; (v) all trade names, logos, common law trademarks and service marks, trademark and service mark registrations, intent-to-use applications and other registrations and applications

therefor throughout the world; (vi) all databases and data collections and all rights therein throughout the world; (vii) all domain names; (viii) all moral and economic rights of authors and inventors, however denominated, throughout the world, and (ix) any similar or equivalent rights to any of the foregoing anywhere in the world.

"Company Intellectual Property" shall mean any Intellectual Property that is owned by, or exclusively licensed to, the Company.

(a) Except as set forth on Schedule 3.11(a), no Company Intellectual Property or product or service of the Company is subject to any proceeding or outstanding decree, order, judgment, contract, license, agreement, or stipulation restricting in any manner the use, transfer, or licensing thereof by Company or which may affect the validity, use or enforceability of such Company Intellectual Property.

(b) Set forth on Schedule 3.11 hereto is a list of all Company Intellectual Property or other Intellectual Property required to operate the Company's business as currently conducted (other than generally available software such as Microsoft Word and the like). True and correct copies of all licenses, assignments and releases relating to such Intellectual Property have been provided to Parent prior to the date hereof, all of which are valid and binding agreements of the parties thereto, enforceable in accordance with their terms. Except as set forth on Schedule 3.11(b), the Company owns and has good and exclusive right, title and interest to, or (x) has exclusive license to, each item of Company Intellectual Property and (y) has non-exclusive license to other Intellectual Property required to operate the Company's business as currently conducted, free and clear of any lien or encumbrance; and all such Intellectual Property rights are in full force and effect. Except as set forth on Schedule 3.11(b), the Company is the exclusive owner of all trademarks and trade names used in connection with the operation of the Company's business as currently conducted, including the sale of any products or the provision of any services by Company. Except as set forth on Schedule 3.11(b), the Company owns exclusively, and has good title to, all copyrighted works that are Company products or which Company otherwise expressly purports to own. No university, government agency (whether federal or state) or other organization has sponsored research and development conducted by the Company or has any claim of right to or ownership of or other encumbrance upon the Intellectual Property rights of the Company.

(c) All patents, patent applications, trademarks, service marks, copyrights, mask work rights and domain names of the Company have been duly registered and/or filed with or issued by each appropriate governmental entity in the jurisdictions indicated on Schedule 3.11 hereto, all necessary affidavits of continuing use have been filed, and all necessary maintenance fees have been paid to continue all such rights in effect.

(d) To the extent that any Intellectual Property (including without limitation software, hardware, copyrightable works and the like) has been developed, created, modified or improved by a third party for the Company, except as set forth on Schedule 3.11 (d), the Company has a written agreement with such third party that assigns to the Company exclusive ownership of such Intellectual Property, each of which is a valid and binding agreement of the

parties thereto, enforceable in accordance with its terms. Except as set forth on Schedule 3.11(d), the Company has the right to use all trade secrets, data, customer lists, log files, hardware designs, programming processes, software and other information required for or incident to its products or business (including, without limitation, the operation of their respective Web sites) as presently conducted and has received no notice that any of such information that is provided to the Company by third parties will not continue to be provided to the Company on the same terms and conditions as currently exist.

(e) The Company has not transferred ownership of, or granted any exclusive license with respect to, any Intellectual Property that is or was Company Intellectual Property to any third party.

(f) Except as set forth on Schedule 3.11(f), the operation of the business of Company as such business currently is conducted, including Company's design, development, manufacture, marketing and sale of the products or services of the Company has not and does not, and with respect to products currently under development to the Company's knowledge will not, infringe or misappropriate the Intellectual Property of any third party or, to its knowledge, constitute unfair competition or trade practices under the laws of any jurisdiction.

(g) Except as set forth on Schedule 3.11(g), the Company has not received any notice or other claim from any third party that the operation of the business of the Company or any act, product or service of the Company infringes, may infringe or misappropriates the Intellectual Property of any third party or constitutes unfair competition or trade practices under the laws of any jurisdiction.

(h) To the knowledge of the Company or the Sole Stockholder, no person has or is infringing or misappropriating any Company Intellectual Property or other Intellectual Property rights in any of its products, technology or services, or has or is violating the confidentiality of any of its proprietary information.

(i) The Company has taken reasonable steps to protect the Company's rights in the Company's proprietary and/or confidential information and trade secrets or any trade secrets or confidential information of third parties provided to the Company, and, without limiting the foregoing, the Company has enforced a policy requiring each employee and contractor to execute a proprietary information/confidentiality agreement substantially in the form provided to Parent, and all current and former employees and contractors of Company have executed such an agreement. To the knowledge of the Company and the Sole Stockholder, all trade secrets and other confidential information of the Company are not part of the public domain nor, have they been misappropriated by any person having an obligation to maintain such trade secrets or other confidential information in confidence for the Company. To the knowledge of the Company and the Sole Stockholder, no employee or consultant of the Company has used any trade secrets or other confidential information of any other person in the course of their work for the Company nor is the Company making unlawful use of any confidential information or trade secrets of any past or present employees of the Company.

Except as set forth on Schedule 3.11(i), all Intellectual Property rights purported to be owned by the Company which were developed, worked on or otherwise held by any employee, officer or consultant, including the Sole Stockholder, are owned free and clear by the Company by operation of law or have been validly assigned to the Company and such assignments have been provided to Parent and are valid binding agreements of the parties thereto, enforceable in accordance with their terms. All of the rights of the Company or the Sole Stockholder, as the case may be, in any of the Company Intellectual Property which is used or is useful in the Company's business, have been validly assigned, transferred and/or conveyed to the Acquisition Corp. as part of the transactions contemplated hereunder and neither the Company nor the Sole Stockholder, as the case may be, has retained any rights with respect thereto. Except as set forth on Schedule 3.11(i), neither the Company, the Sole Stockholder, nor, to the knowledge of the Company and the Sole Stockholder, any of the employees of the Company, have any agreements or arrangements with current or former employers relating to (i) confidential information or trade secrets of such employers, or (ii) the assignment of rights to any inventions, know-how or intellectual property of any kind nor are any such persons bound by any consulting agreement relating to confidential information or trade secrets of another entity that are being violated by such persons. The activities of the employees and consultants of the Company on behalf of the Company do not violate in any material respects any agreements or arrangements known to the Company, or any of the Sole Stockholder which any such employees or consultants have with former employers or any other entity to whom such employees or consultants may have rendered consulting services.

3.12 Contracts. (a) Except as set forth on Schedule 3.12 hereto, the Company is not a party to, or subject to:

(i) any contract, arrangement or understanding, or series of related contracts, arrangements or understandings, which involves annual expenditures or receipts by the Company of more than $10,000, excluding those advertiser contracts as agreed to by the parties;

(ii) any note, indenture, credit facility, mortgage, security agreement or other contract, arrangement or understanding relating to or evidencing indebtedness for money borrowed or a security interest or mortgage in the assets of the Company;

(iii) any guaranty issued by the Company;

(iv) any contract, arrangement or understanding (other than this Agreement) relating to the acquisition, issuance or transfer of any securities, including, without limitation, convertible securities;

(v) any contract, arrangement or understanding relating to the acquisition, transfer, distribution, use, development, sharing or license of any technology or Company Intellectual Property, other than licenses granted in the ordinary course of business with a term of less than one (1) year;

(vi) any contract, arrangement or understanding granting to any person the right to use any property or property right of the Company other than licenses granted in the ordinary course of business with a term of less than one (1) year;

(vii) any contract, arrangement or understanding restricting the right of the Company to (A) engage in any business activity or compete with any business, or (B) develop or distribute any technology;

(viii) any contract, arrangement or understanding relating to the employment of, or the performance of services of, any employee, consultant or independent contractor and pursuant to which the Company is required to pay more than $10,000 per year;

(ix) any contract, arrangement or understanding with a Related Person; or

(x) any outstanding offer, commitment or obligation to enter into any contract or arrangement of the nature described in subsections (i) through (ix) of this subsection 2.12(a).

(b) The Company has previously provided or made available to the Parent complete and correct copies (or, in the case of oral contracts, a complete and correct description) of any contract (and any amendments or supplements thereto) listed on Schedule 3.12(a) hereto. Except as set forth on Schedule 3.12(b) hereto, (i) each contract listed in Schedule 3.12(a) hereto is in full force and effect; (ii) neither the Company nor (to the knowledge of the Company and the Sole Stockholder) any other party is in default of a material nature under any contract listed in Schedule 3.12 (a) hereto, and no event has occurred which constitutes, or with the lapse of time or the giving of notice or both would constitute, a default of a material nature by the Company or (to the knowledge of the Company and the Sole Stockholder) a default of a material nature by any other party under such contract; (iii) to the knowledge of the Company and the Sole Stockholder, there are no material disputes or disagreements between the Company and any other party with respect to any contract listed in Schedule 3.12 (a) hereto; and (iv) each other party to each such material contract has consented or been given notice (or prior to the Closing shall have consented or been given notice), where such consent or the giving of such notice is necessary in order for such contract to remain in full force and effect following the consummation of the transactions contemplated by this Agreement without modification in the rights or obligations of the Company thereunder.

(c) Except as set forth on Schedule 3.12(c) hereto, the Company has not issued any warranty or any agreement or commitment to indemnify any person other than in the ordinary course of business.

(d) Each of the contracts set forth on Schedule 3.12 hereto, is, always has been and shall be through and as of the Closing Date in compliance with and shall not violate all applicable laws, including any and all laws applicable to the internet or the Company's business, or any other law, statute, ordinance, code, rule, regulation, judgment, order, injunction, writ or decree of any federal, state, local or foreign court or governmental or regulatory body, agency or

authority having, asserting or claiming jurisdiction over it or over any part of its business, operations, properties or assets, except for any violation that would not have a Company Material Adverse Effect.

3.13 Employees; Employee Benefits.

(a) Schedule 3.13(a) hereto sets forth the names of all current employees of the Company (the "Employees") and such Employee's job title, the location of employment of such Employee, such Employee's current salary, the amount of any bonuses or other compensation paid since December 31, 2003 to such Employee, the date of employment of such Employee and the accrued vacation time of such Employee. Schedule 3.13(a) hereto sets forth a true and correct statement of the liability, if any, of the Company for accrued but unused sick pay. There are no outstanding loans from the Company to any officer, director, employee, agent or consultant of the Company, or to any other Related Person. Schedule 3.13(a) hereto sets forth a complete and correct description of all severance policies of the Company. Complete and correct copies of all written agreements (or, in the case of oral agreements, a complete and correct description) with Employees and all employment policies, and all amendments and supplements thereto, have previously been delivered to the Parent, and a list of all such agreements and policies is set forth on Schedule 3.13(a). None of the Employees has, to the knowledge of the Company and the Sole Stockholder, indicated a desire to terminate his or her employment, or any intention to terminate his or her employment upon a sale of, or business combination relating to, the Company or in connection with the transactions contemplated by this Agreement. Except as set forth on Schedule 3.13(a) hereto, since December 31, 2003, the Company has not (i) increased the salary or other compensation payable or to become payable to or for the benefit of any of the Employees, except in the ordinary course of business consistent with past practice, (ii) increased the term or tenure of employment for any Employee, except in the ordinary course of business consistent with past practice, (iii) increased the amounts payable to any of the Employees upon the termination of any such person's employment or (iv) adopted, increased, augmented or improved benefits granted to or for the benefit of any of the Employees under any Benefit Plan (as such term is defined herein).

(b) The Company has complied in all material respects with Title VII of the Civil Rights Act of 1964, as amended, the Age Discrimination in Employment Act, as amended, the Fair Labor Standards Act, as amended, the Immigration Reform and Control Act of 1986, and all applicable laws, rules and regulations governing payment of minimum wages and overtime rates, the withholding and payment of taxes from compensation, discriminatory practices with respect to employment and discharge, or otherwise relating to the conduct of employers with respect to Employees or potential employees, and there have been no claims made or, to the knowledge of the Company or the Sole Stockholder, threatened thereunder against the Company arising out of, relating to or alleging any violation of any of the foregoing. There are no material controversies, strikes, work stoppages, picketing or disputes pending or, to the knowledge of the Company or the Sole Stockholder, threatened between the Company and any of the Employees or former employees; no labor union or other collective bargaining unit represents or has ever represented any of the Employees, including any "leased employees" (within the meaning of Section 414(n) of the Code); no organizational effort by any labor union

or other collective bargaining unit currently is under way or, to the knowledge of the Company or the Sole Stockholder, threatened with respect to any Employees; and the consent of no labor union or other collective bargaining unit is required to consummate the transactions contemplated by this Agreement.

(c) Schedule 3.13(c) hereto sets forth a list of each defined benefit and defined contribution plan, stock ownership plan, employment or consulting agreement, executive compensation plan, bonus plan, incentive compensation plan or arrangement, deferred compensation agreement or arrangement, agreement with respect to temporary employees or "leased employees" (within the meaning of Section 414(n) of the Code), vacation pay, sickness, disability or death benefit plan (whether provided through insurance, on a funded or unfunded basis or otherwise), employee stock option, stock appreciation rights or stock purchase plan, severance pay plan, cafeteria plan, arrangement or practice, employee relations policy, practice or arrangement, and each other employee benefit plan, program or arrangement, including, without limitation, each "employee benefit plan" within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), which has been maintained or contributed to by the Company or any other entity which must be aggregated with the Company as required by Section 414(b),(c),(m) or (o) of the Code (an "ERISA Affiliate") for the benefit of or relating to any of the Employees or to any former employees or their dependents, survivors or beneficiaries, whether or not legally binding, whether written or oral or whether express or implied, or for which the Company or any ERISA Affiliate has any liability or contingent liability, all of which are hereinafter referred to as the "Benefit Plans."

(d) Each Benefit Plan which is an "employee pension benefit plan" (as defined in Section 3(2) of ERISA) or other form of retirement plan intended to meet the requirements of Section 401(a) of the Code is the subject of a favorable determination letter issued by the Internal Revenue Service (the "IRS") with respect to such plan's qualified status under the Code, has remaining a period of time under the Code or applicable Treasury regulations or IRS pronouncements in which to request, and make any amendments necessary to obtain, such a letter from the IRS, or, if reliance is permitted under IRS Announcement 2001-77, relies on the favorable opinion or advisory letter of the master, prototype or volume submitter plan sponsor of the plan and nothing has occurred since the date of such determination letter that could reasonably be expected to adversely affect the qualification of such plan. No Benefit Plan is an "employee welfare benefit plan" (as defined in Section 3(1) of ERISA) that at any time prior to the Closing was not exempt from the annual reporting requirement set forth in Section 104(a) of ERISA. No Benefit Plan is a "voluntary employees beneficiary association" (within the meaning of section 501(c)(9) of the Code) and there have been no other "welfare benefit funds" (within the meaning of Section 419 of the Code) relating to Employees or former employees. No event or condition exists with respect to any Benefit Plan that could reasonably be expected to subject the Company or any of its ERISA Affiliates to any material Tax under Section 4980B of the Code, or other applicable law. With respect to each Benefit Plan, the Company has each heretofore delivered to the Parent complete and correct copies of the following documents, where applicable and to the extent available: (i) the most recent annual report (Form 5500 series), together with schedules, as required, filed with the IRS, and any financial statements and opinion required by Section 103(a)(3) of ERISA, (ii) the most recent

determination letter issued by the IRS, (iii) the most recent summary plan description and all summaries of material modifications related thereto, as well as all other descriptions distributed to Employees or set forth in any manuals or other documents, (iv) the text of the Benefit Plan and of any trust, insurance or annuity contracts maintained in connection therewith, in each case, as currently in effect, and (v) the most recent actuarial report, if any, relating to the Benefit Plan. None of the Benefit Plans is subject to Title IV of ERISA or the minimum funding requirements of Section 412 of the Code; and none of the Benefit Plans is, or has been, the subject of any investigation, audit or action by the IRS, the Department of Labor or the Pension Benefit Guaranty Corporation as to which the Company or any of its ERISA Affiliates has received written notice.

(e) No Benefit Plan provides benefits, including, without limitation, death, medical or severance benefits, with respect to current or former employees or directors (or their beneficiaries) beyond their retirement or other termination of service other than (i) coverage for benefits mandated by applicable law, (ii) deferred compensation benefits properly accrued as liabilities on the Financial Statements, (iii) benefits under a plan that is intended to be qualified under Section 401(a) of the Code, or (iv) benefits the full cost of which is borne by the current or former employee or director or his beneficiaries.

(f) All Benefit Plans comply and have been administered in form and operation, in all material respects, in compliance with all requirements of laws and regulations applicable thereto.

(g) There have been no "prohibited transactions" (as described in 406 of ERISA or 4975 of the Code) with respect to any Benefit Plan for which no exception is applicable.

(h) There are no actions, suits or claims (other than routine claims for benefits) pending or threatened involving any Benefit Plan, and no facts exist which could give rise to any such actions, suits or claims (other than routine claims for benefits).

3.14 Compliance with Applicable Law. The Company is not in violation in any respect of any applicable safety, health or environmental law, any law applicable to the internet or the Company's business, or any other law, statute, ordinance, code, rule, regulation, judgment, order, injunction, writ or decree of any federal, state, local or foreign court or governmental or regulatory body, agency or authority having, asserting or claiming jurisdiction over it or over any part of its business, operations, properties or assets, except for any violation that would not have a Company Material Adverse Effect. The Company has not received any notice alleging any such violation, nor to the knowledge of the Company or the Sole Stockholder, is there any inquiry, investigation or proceedings relating thereto.

3.15 Ability to Conduct Business. There is no agreement, arrangement or understanding, nor any judgment, order, writ, injunction or decree of any court or governmental or regulatory body, agency or authority applicable to the Company or to which the Company is a party or to the knowledge of the Company and the Sole Stockholder applicable to the Company

by which it or any of its properties or assets is bound, that will prevent the use by the Surviving Corporation, after the Effective Time, of the properties and assets owned by, the business conducted by or the services rendered by the Company on the date hereof, in each case on substantially the same basis as the same are used, owned, conducted or rendered on the date hereof. The Company has in force, and is in compliance with, in all material respects, all governmental permits, licenses, exemptions, consents, authorizations and approvals used in or required for the conduct of its business as presently conducted, all of which shall continue in full force and effect, without requirement of any filing or the giving of any notice and without modification thereof, following the consummation of the transactions contemplated hereby. The Company has not received any notice of, and to the knowledge of the Company or the Sole Stockholder, there are no inquiries, proceedings or investigations relating to or which could result in the revocation or modification of any such permit, license, exemption, consent, authorization or approval.

3.16 Major Advertisers and Distribution Partners. Schedule 3.16 hereto sets forth a complete and correct list of the ten (10) largest advertisers and distribution partners of the Company in terms of revenue recognized in respect of such advertisers and distribution partners during the six (6) months ended June 30, 2004 and during the twelve (12) months ended December 31, 2003, showing the amount of revenue recognized for each such advertiser or distribution partner, as the case may be, during such period. The Data from which such lists were generated has been made available to Parent and Acquisition Corp. To the extent the Company has provided compilations of Data, this representation shall only extend to the Data provided. To the knowledge of the Company and the Sole Stockholder, except as set forth on Schedule 3.16 hereto, the Company has not received any notice or other communication (written or oral) from any of the advertisers or distribution partners listed in Schedule 3.16 hereto terminating, amending or reducing in any material respect, or setting forth an intention to terminate, amend or reduce in the future, or otherwise reflecting a material adverse change in, the business relationship between such advertiser or distribution partner and the Company.

3.17 Accounts Receivable. All accounts receivable of the Company reflected on the Balance Sheet (i) arose from bona fide transactions in the ordinary course of business and consistent with past practice, and (ii) except as set forth on Schedule 3.12(a)(ii) hereto, are owned by the Company free and clear of any security interest, lien, encumbrance, or claims, and (iii) are accurately and fairly reflected on the Balance Sheet, or, with respect to accounts receivable of the Company created after June 30, 2004, are accurately and fairly reflected in the books and records of the Company. The reserves for bad debts reflected on the Balance Sheet were calculated in accordance with GAAP consistent with past practice and are adequate. The Company reasonably believes that all such accounts receivable are good and collectible at the aggregate recorded amounts thereof, net of any applicable reserves for bad debts reflected on the Balance Sheet, and since June 30, 2004, there have not been any write-offs as uncollectible of any accounts receivable of the Company. Schedule 3.17 attached hereto sets forth a schedule of the Company’s accounts receivable as of the date of execution hereof.

3.18 Insurance. Schedule 3.18 hereto sets forth a true and complete list of all insurance policies carried by the Company with respect to its business, together with, in respect of each

such policy, the name of the insurer, the number of the policy, the annual policy premium payable therefor, the limits of coverage, the deductible amount (if any), the expiration date thereof and each pending claim thereunder. The Company has maintained insurance covering it and its properties in such amounts against such hazards and liabilities and for such purposes as set forth on Schedule 3.18 hereto and except as set forth on Schedule 3.18 hereto, all such policies are in full force and effect and such policies, or other policies covering the same risks, have been in full force and effect, without gaps, continuously for the past two (2) years. All premiums due thereon have been paid in a timely manner. Complete and correct copies of all current insurance policies of the Company have been made available to Parent for inspection. The Company is not in default under any of such policies, and the Company has not failed to give any notice or to present any claim under any such policy in a due and timely fashion. The Company does not have knowledge of any facts which would likely result in an insurer reducing coverage or increasing premiums on existing policies and to the Company's knowledge, all such insurance policies can be maintained in full force and effect without substantial increase in premium or reducing the coverage thereof following the Closing. There is no claim pending under any of such policies as to which coverage has been questioned, denied or disputed by the underwriters of such policy.

3.19 Bank Accounts; Powers of Attorney. Schedule 3.19 hereto sets forth a complete and correct list showing:

(i) all bank accounts of the Company, together with, with respect to each such account, the account number, the names of all signatories thereof, the authorized powers of each such signatory and the approximate balance thereof on the date of this Agreement; and

(ii) the names of all persons holding powers of attorney from the Company and a summary statement of the terms thereof.

3.20 Minute Books, etc. The minute books, stock records and other corporate records of the Company are complete and correct in all material respects, and complete and correct copies thereof have been delivered by the Company to the Parent. The minute books of the Company contain accurate and complete records of all meetings or written consents to action of the Sole Stockholder of the Company and accurately reflect all corporate actions of the Company passed upon by the Sole Stockholder of the Company.

3.21 Related Person Indebtedness and Contracts. Schedule 3.21 hereto sets forth a complete and correct summary of all contracts, commitments, arrangements and understandings not described elsewhere in this Agreement between the Company and any of the following (collectively, "Related Persons"): (i) the Sole Stockholder; (ii) the spouses and children of the Sole Stockholder (collectively, "Near Relatives"); (iii) any trust for the benefit of the Sole Stockholder or any of his Near Relatives; or (iv) any corporation, partnership, joint venture or other entity or enterprise owned or controlled by the Sole Stockholder or by any of his Near Relatives. Except as set forth on Schedule 3.21 hereto, all amounts contributed by the Related Persons to the Company, as the case may be, have been treated as contributions to equity of the Company and have not been treated as, nor do they constitute, indebtedness of the Company to the Related Persons.

3.22 Brokers; Payments. No broker, investment banker, financial advisor or other person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company or the Sole Stockholder. The Company has suspended or terminated, and has the legal right to terminate or suspend, all negotiations and discussions of Acquisition Transactions (as defined in Section 6.3) with parties other than Parent. No valid claim exists against the Company or, based on any action by the Company, against the Surviving Corporation or the Parent for payment of any "topping," "break-up" or "bust-up" fee or any similar compensation or payment arrangement as a result of the transactions contemplated hereby.

3.23 State Takeover Statutes. The Board of Directors of the Company has (i) determined that the Merger is fair and in the best interest of the Company and its Stockholders, (ii) approved and adopted the Merger and this Agreement and the other transactions contemplated by this Agreement, and (iii) directed that this Agreement and the Merger be submitted to the Sole Stockholder for his approval and resolved to recommend that the Sole Stockholder vote in favor of this Agreement and the Merger, and such approval is sufficient to render inapplicable to the Merger and this Agreement and the other transactions contemplated by this Agreement, any state takeover statute or similar law that would otherwise be applicable to the Merger and this Agreement and the other transactions contemplated by this Agreement.

3.24 Disclosure. The Company has not failed to disclose to Parent any fact that is reasonably more likely than not to have a Company Material Adverse Effect or impede or impair the ability of the Company to perform its obligations under this Agreement in any material respect. No representation or warranty by the Company or the Sole Stockholder contained in this Agreement and no statement contained, when considered together as a whole, in any of the Company Disclosure Schedules, and the certificates and other documents or instruments delivered or to be delivered pursuant to this Agreement by or on behalf of the Company and/or the Sole Stockholder contains or will contain any untrue statement of a material fact or omits or will omit to state any material fact necessary to make the statements contained therein, in light of the circumstances under which they are made, not misleading.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES
OF THE SOLE STOCKHOLDER

4.1 Authorization; etc. The Sole Stockholder represents and warrants to the Parent and Acquisition Corp. as follows:

(i) The Sole Stockholder is the sole and exclusive record and beneficial owner of the Common Stock set forth opposite his name in Schedule 3.4 hereto, free and clear of any claims, liens, pledges, options, rights of first refusal or other encumbrances or restrictions of any nature whatsoever (other than restrictions on transfer imposed under applicable securities laws), and there are no agreements, arrangements or understandings to which such Sole Stockholder is a party (other than this Agreement) involving the purchase, sale or other acquisition or disposition of the Common Stock owned by the Sole Stockholder;

(ii) The Sole Stockholder shall (A) simultaneously with his execution and delivery of this Agreement, execute and deliver to Parent an irrevocable proxy or written consent in which the Sole Stockholder voted all Common Stock owned by the Sole Stockholder in favor of the Merger and the adoption of this Agreement by the Company, (B) at the Effective Time, deliver or cause to be delivered to the Parent (x) Certificate(s) representing all Common Stock owned by the Sole Stockholder, each Certificate to be duly endorsed for transfer and free and clear of any claims, liens, pledges, options, rights of first refusal or other encumbrances or restrictions of any nature whatsoever (other than restrictions imposed under applicable securities laws).

(iii) The Sole Stockholder has all necessary legal capacity, right, power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby, and this Agreement constitutes a valid and binding obligation of the Sole Stockholder enforceable in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors, rights generally and by general principles of equity, regardless of whether such enforceability is considered in a proceeding in law or in equity; and

(iv) The execution and delivery of this Agreement by the Sole Stockholder and the consummation of the transactions contemplated hereby will not breach, violate or constitute an event of default (or an event which with the lapse of time or the giving of notice or both would constitute an event of default) under, give rise to any right of termination, cancellation, modification or acceleration under or require any consent or the giving of any notice under, any note, bond, indenture, mortgage, security agreement, lease, license, franchise, permit, agreement or other instrument or obligation to which the Sole Stockholder is a party, or by which the Sole Stockholder or the Common Stock held by the Sole Stockholder may be bound, or result in the creation of any lien, claim or encumbrance or other right of any third party of any kind whatsoever upon the properties or assets of the Sole Stockholder pursuant to the terms of any such instrument or obligation, which breach, violation or event of default would

have a material adverse effect on the Sole Stockholder's ability to perform the Sole Stockholder's obligations hereunder, or (C) violate or conflict with any law, statute, ordinance, code, rule, regulation, judgment, order, writ, injunction, decree or other instrument of any court or governmental or regulatory body, agency or authority applicable to the Sole Stockholder or by which such the Common Stock held by the Sole Stockholder may be bound.

4.2 Parent Common Stock.

The Sole Stockholder, acknowledges, represents and warrants to the Parent and Acquisition Corp. as follows:

(i) The Sole Stockholder understands that the shares of Parent Common Stock to be issued to the Sole Stockholder in the Merger will not have been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities law by reason of specific exemptions under the provisions thereof which depend in part upon the other representations and warranties made by the Sole Stockholder in this Agreement. The Sole Stockholder understands that the Parent is relying, in part, upon the Sole Stockholder's representation and warranties contained in this Section 4.2 for the purpose of determining whether this transaction meets the requirements for such exemptions.

(ii) The Sole Stockholder has such knowledge, skill and experience in business, financial and investment matters so that the Sole Stockholder is capable of evaluating the merits and risks of an investment in the Parent Common Stock pursuant to the transactions contemplated by this Agreement or to the extent that the Sole Stockholder has deemed it appropriate to do so, the Sole Stockholder has relied upon appropriate professional advice regarding the tax, legal and financial merits and consequences of an investment in Parent Common Stock pursuant to the transactions contemplated by this Agreement.

(iii) The Sole Stockholder has made, either alone or together with the Sole Stockholder's advisors, such independent investigation of the Parent, its management and related matters as the Sole Stockholder deems to be, or such advisors have advised to be, necessary or advisable in connection with an investment in the Parent Common Stock through the transactions contemplated by this Agreement; and the Sole Stockholder and advisors have received all information and data that the Sole Stockholder and such advisors believe to be necessary in order to reach an informed decision as to the advisability of an investment in the Parent Common Stock pursuant to the transactions contemplated by this Agreement.

(iv) The Sole Stockholder has reviewed the Sole Stockholder's financial condition and commitments, alone and together with the Sole Stockholder's advisors, and, based on such review, the Sole Stockholder is satisfied that (A) the Sole Stockholder has adequate means of providing for the Sole Stockholder's financial needs and possible contingencies and has assets or sources of income which, taken together, are more than sufficient so that he could bear the risk of loss of the Sole Stockholder's entire investment in the Parent Common Stock, (B) the Sole Stockholder has no present or contemplated future need to dispose of all or any portion of the Parent Common Stock to satisfy any existing or contemplated

undertaking, need or indebtedness, and (C) the Sole Stockholder is capable of bearing the economic risk of an investment in the Parent Common Stock for the indefinite future. The Sole Stockholder shall furnish any additional information about the Sole Stockholder reasonably requested by the Parent to assure the compliance of this transaction with applicable federal and state securities laws.

(v) The Sole Stockholder understands that the shares of the Parent Common Stock to be received by the Sole Stockholder in the transactions contemplated hereby will be "restricted securities" under applicable federal securities laws and that the Securities Act and the rules of the Securities and Exchange Commission (the "SEC") promulgated thereunder provide in substance that the Sole Stockholder may dispose of such shares only pursuant to an effective registration statement under the Securities Act or an exemption from registration if available, including but not limited to Rule 144 promulgated under the Securities Act. The Sole Stockholder further understands that, except as provided in the Registration Rights Agreement (as defined in Section 10.6 hereof), the Parent has no obligation or intention to register the sale of any of the shares of the Parent Common stock to be received by the Sole Stockholder in the transactions contemplated hereby, or take any other action so as to permit sales pursuant to, the Securities Act. Accordingly, the Sole Stockholder understands that the Sole Stockholder may dispose of such shares only in transactions which are of a type exempt from registration under the Securities Act, including (without limitation) a "private placement," in which event the transferee will acquire such shares as "restricted securities" and subject to the same limitations as in the hands of the Sole Stockholder. The Sole Stockholder further understands that applicable state securities laws may impose additional constraints upon the sale of securities. As a consequence, the Sole Stockholder understands that the Sole Stockholder may have to bear the economic risk of an investment in the Parent Common Stock to be received by the Sole Stockholder pursuant to the transactions contemplated hereby for an indefinite period of time.

(vi) The Sole Stockholder is acquiring shares of the Parent Common Stock pursuant to the transactions contemplated hereby for investment only and not with a view to or intention of or in connection with any resale or distribution of such shares or any interest therein.

(vii) The certificate(s) evidencing the shares of the Parent Common Stock to be issued pursuant to the transactions contemplated hereby shall bear the following legend:

> "The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, or any state securities laws and may not be sold or transferred in the absence of such registration or an exemption therefrom under the Securities Act of 1933, as amended, and applicable state securities laws."

4.3 General Release. The Sole Stockholder hereby voluntarily releases and discharges the Surviving Corporation, its affiliates, subsidiaries, predecessors, successors and assigns, and each of them, and the current and former officers, directors, stockholders,

employees, and agents of the foregoing (any and all of which are referred to as the "Releasees"), from all charges, complaints, claims, promises, agreements, causes of action, damages, and debts of any nature whatsoever, known or unknown ("Claims"), which the Sole Stockholder has, claims to have, ever had, or ever claimed to have had against the Surviving Corporation or any other Releasees, whether arising under federal or state law and whether as a stockholder or employee of the Company or in any other capacity, except for Claims arising under this Agreement and agreements to be delivered hereunder.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF THE PARENT AND ACQUISITION CORP.

The Parent and Acquisition Corp. jointly and severally represent and warrant to the Company and the Sole Stockholder as set forth below, subject to the exceptions set forth in the disclosure schedules hereto (the "Parent Disclosure Schedules"), the section numbers and letters of which correspond to the section and subsection numbers and letters of this Agreement.

5.1 Corporate Organization. Each of the Parent and Acquisition Corp. is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Each of the Parent and Acquisition Corp. has all requisite corporate power and authority to own, operate and lease the properties and assets it now owns, operates and leases and to carry on its business as presently conducted. The Parent and Acquisition Corp. are each duly qualified to transact business as a foreign corporation and are each in good standing in the jurisdictions where such qualification is required by reason of the nature of the properties and assets currently owned, operated or leased by the Parent or Acquisition Corp. or the business currently conducted by them, except for such jurisdictions where the failure to be so qualified would not have a Parent Material Adverse Effect (as defined below). Acquisition Corp. is a corporation newly formed by Parent and has not conducted any business other than as expressly set forth in or contemplated by this Agreement. The Parent has previously made available to the Company complete and correct copies of (i) its Certificate of Incorporation and all amendments thereto as of the date hereof (certified by the Secretary of State of Delaware as of a recent date) and its By-Laws (certified by the Secretary of the Parent as of a recent date) and (ii) the Certificate of Incorporation of Acquisition Corp. and all amendments thereto as of the date hereof (certified by the Secretary of State of the State of Delaware as of a recent date) and the By-Laws of Acquisition Corp. (certified by the Secretary of Acquisition Corp. as of a recent date). Neither the Certificate of Incorporation nor the By-Laws of the Parent or Acquisition Corp. have been amended since the respective dates of certification thereof, nor has any action been taken for the purpose of effecting any amendment of such instruments. The term "Parent Material Adverse Effect" means for purposes of this Agreement, any change, event or effect that is, or that is reasonably likely to be, materially adverse to the business, operation, assets, liabilities, financial condition or results of operations of the Parent and its subsidiaries (including Acquisition Corp.), taken as a whole.

5.2 Authorization. Each of the Parent and Acquisition Corp. has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly approved by the Boards of Directors of the Parent and Acquisition Corp. and by the Parent as the sole stockholder of Acquisition Corp., and no other corporate proceedings on the part of the Parent or Acquisition Corp. are necessary to approve and authorize the execution and delivery of this Agreement or (subject to the filing of the Certificates of Merger pursuant to the DGCL and the CGS) the consummation of the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Parent and Acquisition Corp. and constitutes the valid and binding agreement of the Parent and Acquisition Corp., enforceable in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or in law).

5.3 Consents and Approvals; No Violations. Subject to (a) the filing of Certificates of Merger with the Secretary of State of the State of Delaware and with the Secretary of State of the State of Connecticut, respectively, and (b) compliance with applicable federal and state securities laws, the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not: (i) violate or conflict with any provisions of the Certificate of Incorporation or By-Laws of the Parent or Acquisition Corp.; (ii) breach, violate or constitute an event of default (or an event which with the lapse of time or the giving of notice or both would constitute an event of default) under, give rise to any right of termination, cancellation, modification or acceleration under, or require any consent or the giving of any notice under, any note, bond, indenture, mortgage, security agreement, lease, license, franchise, permit, agreement or other instrument or obligation to which the Parent or Acquisition Corp. are parties, or by which any of them or any of their respective properties or assets may be bound, or result in the creation of any lien, claim or encumbrance of any kind whatsoever upon the properties or assets of the Parent or Acquisition Corp. pursuant to the terms of any such instrument or obligation, other than any breach, violation, default, termination, cancellation, modification or acceleration which would not have a Parent Material Adverse Effect; (iii) violate or conflict with any law, statute, ordinance, code, rule, regulation, judgment, order, writ, injunction or decree or other instrument of any federal, state, local or foreign court or governmental or regulatory body, agency, association, organization or authority applicable to the Parent or Acquisition Corp. or by which any of their respective properties or assets may be bound, except for such violations or conflicts which would not have a Parent Material Adverse Effect; or (iv) require, on the part of the Parent or Acquisition Corp., any filing or registration with, or permit, license, exemption, consent, authorization or approval of, or the giving of any notice to, any governmental or regulatory body, agency or authority other than any filing, registration, permit, license, exemption, consent, authorization, approval or notice which if not obtained or made would not have a Parent Material Adverse Effect.

5.4 Capitalization. (a) As of the date of this Agreement, the authorized capital stock of the Parent consists of 137,500,000 shares of Common Stock, $0.01 par value per share, of

which 12,500,000 shares have been designated Class A Common Stock (the "Parent Class A Common Stock") and of which 11,987,500 shares are outstanding and 125,000,000 shares have been designated Class B Common Stock (the "Parent Common Stock"), of which 12,941,746 shares are outstanding and 1,000,000 shares of Preferred Stock, $0.01 par value per share (the "Parent Preferred Stock"), none of which are outstanding (the Parent Class A Common Stock, the Parent Common Stock and the Parent Preferred Stock collectively shall be referred to herein as the "Parent Capital Stock"). All of the issued and outstanding shares of Parent Capital Stock are duly authorized, validly issued, fully paid and nonassessable. Except for options issued under the Parent's 2003 Amended and Restated Stock Incentive Plan and Parent's 2004 Employee Stock Purchase Plan (together, the "Parent Option Plans") and warrants to purchase an aggregate of 120,000 shares of Parent Common Stock issued to National Securities Corporation and Sanders Morris Harris, Inc. in connection with Parent's initial public offering (together, the "Underwriters' Warrants"), there are no outstanding options, warrants or other rights to purchase, or securities convertible into or exchangeable for, shares of the capital stock of the Parent, and (except as contemplated by this Agreement and except with respect to options issued under the Parent Option Plans and the Underwriters' Warrants) there are no agreements or commitments to which the Parent is a party or by which it is bound pursuant to which the Parent is or may become obligated to issue additional shares of its capital stock.

(b) As of the date of this Agreement, the authorized capital stock of Acquisition Corp. consists of 1,000 shares of common stock, par value $0.01 per share, of which 100 shares are issued and outstanding, all of which shares are owned beneficially and of record by the Parent free and clear of any lien, claim encumbrance or any agreement with respect thereto. There are no outstanding options, warrants or other rights to purchase, or securities convertible into or exchangeable for, shares of the capital stock of Acquisition Corp., and there are no agreements or commitments to which Acquisition Corp. is a party or by which it is bound pursuant to which Acquisition Corp. is or may become obligated to issue additional shares of its capital stock.

5.5 SEC Reports and Financial Statements. The Parent has heretofore delivered or made available to the Company complete and correct copies of all reports and other filings filed by the Parent with the SEC pursuant to the Securities Act and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations thereunder (the "Acts") since and including the effective date of the Form SB-2 Registration Statement with respect to the Parent's initial public offering (such reports and other filings collectively referred to herein as the "SEC Filings"). The SEC Filings constitute all of the documents required to be filed by the Parent under the Securities Act and Exchange Act since such date. All documents that are required to be filed as exhibits to the SEC Filings have been so filed, and all contracts so filed as exhibits are in full force and effect, except those which are expired in accordance with their terms, and neither Parent nor any of its subsidiaries is in default thereunder. As of their respective dates, the SEC Filings did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited financial statements of the Parent included in the SEC Filings comply in all material respects with the published rules and regulations of the SEC with respect thereto, and such audited financial

statements (i) were prepared from the books and records of the Parent, (ii) were prepared in accordance with GAAP applied on a consistent basis (except as may be indicated therein or in the notes or schedules thereto) and (iii) present fairly the financial position of the Parent as at the dates thereof and the results of operations and cash flows for the periods then ended, subject to normal year-end adjustments and any other adjustments described therein or in the notes or schedules thereto. The unaudited financial statements included in the SEC Filings comply in all material respects with the published rules and regulations of the SEC with respect thereto and such unaudited financial statements (i) were prepared from the books and records of the Parent, (ii) were prepared in accordance with GAAP applied on a consistent basis (except as may be indicated therein or in the notes or schedules thereto) and (iii) present fairly the financial position of the Parent as at the dates thereof and the results of operations and cash flows for the periods then ended, subject to normal year-end adjustments and any other adjustments described therein or in the notes or schedules thereto. The foregoing representations and warranties in this Section 5.5 shall also be deemed to be made with respect to all filings made with the SEC on or before the Effective Time.

5.6 Compliance with Applicable Law. Parent and Acquisition Corp. are not in violation in any respect of any applicable safety, health, environmental or other law, statute, ordinance, code, rule, regulation, judgment, order, injunction, writ or decree of any federal, state, local or foreign court or governmental or regulatory body, agency or authority having, asserting or claiming jurisdiction over it or over any part of its business, operations, properties or assets, except for any violation that would not have a Parent Material Adverse Effect. Parent and Acquisition Corp. have not received any notice alleging any such violation, nor to the knowledge of Parent or Acquisition Corp., is there any inquiry, investigation or proceedings relating thereto.

5.7 Brokers; Payments. No broker, investment banker, financial advisor or other person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Parent or Acquisition Corp..

5.8 Validity of Shares. Assuming the accuracy of the representations and warranties contained in Article IV, the shares of Parent Common Stock to be issued in connection with the Merger will, when issued in accordance with this Agreement, be duly authorized, validly issued, fully paid and nonassessable, will not be subject to any preemptive or other statutory right of stockholders, will be issued in compliance with applicable U.S. Federal and state securities laws and will be free of any liens or encumbrances.

5.9 Disclosure. Parent has not failed to disclose to Company any fact that is reasonably more likely than not to have a Parent Material Adverse Effect or impede or impair the ability of the Parent to perform its obligations under this Agreement in any material respect. No representation or warranty by Parent or Acquisition Corp. contained in this Agreement and no statement contained, when considered together as a whole, in any of the Parent Disclosure Schedules, and the certificates and other documents or instruments delivered or to be delivered pursuant to this Agreement by or on behalf of the Parent and/or the Acquisition Corp. contains or will contain any untrue statement of a material fact or omits or will omit to state any material fact necessary to make the statements contained therein, in light of the circumstances under which they are made, not misleading.

ARTICLE VI

CONDUCT OF BUSINESS PRIOR TO THE EFFECTIVE TIME

6.1 Conduct of Business of the Company. During the period commencing on the date hereof and continuing until the Effective Time, the Company and the Sole Stockholder agree that the Company, except as otherwise expressly contemplated by this Agreement or agreed to in writing by the Parent:

(a) will carry on its business only in the ordinary course and consistent with past practice;

(b) will not declare or pay any dividend on or make any other distribution (however characterized) in respect of shares of its capital stock;

(c) will not, directly or indirectly, redeem or repurchase, or agree to redeem or repurchase, directly or indirectly, any shares of its capital stock;

(d) will not amend its Certificate of Incorporation or By-Laws;

(e) will not issue, or agree to issue, any shares of its capital stock, or any options, warrants or other rights to acquire shares of its capital stock, or any securities convertible into or exchangeable for shares of its capital stock;

(f) will not combine, split or otherwise reclassify any shares of its capital stock;

(g) will not form any subsidiaries;

(h) will use its best efforts to preserve intact its present business organization, keep available the services of its officers and key employees and preserve its relationships with clients and others having business dealings with it to the end that its goodwill and ongoing business shall not be materially impaired at the Effective Time;

(i) will not (i) make any capital expenditures individually or in the aggregate in excess of $10,000, (ii) enter into any license, distribution, OEM, reseller, joint venture or other similar agreement other than in the ordinary course, (iii) enter into or terminate any lease of, or purchase or sell, any real property, (iv) enter into any leases of personal property involving individually or in the aggregate in excess of $10,000 annually, (v) incur or guarantee any additional indebtedness for borrowed money other than in the ordinary course, (vi) create or permit to become effective any security interest, mortgage, lien, charge or other encumbrance on any of its properties or assets, or (vii) enter into any agreement to do any of the foregoing;

(j) will not adopt or amend any Benefit Plan for the benefit of Employees, or increase the salary or other compensation (including, without limitation, bonuses or severance compensation) payable or to become payable to its Employees or accelerate, amend or change the period of exercisability or the vesting schedule of options or restricted stock granted under any stock option plan or agreements or enter into any agreement to do any of the foregoing, except as specifically required by the terms of such plans or agreements;

(k) will not accelerate receivables or delay payables;

(l) will promptly advise the Parent of the commencement of, or threat of (to the extent that such threat comes to the knowledge of the Company or the Sole Stockholder) any claim, action, suit, proceeding or investigation against, relating to or involving the Company or any of its respective officers, employees, agents or consultants in connection with their businesses or the transactions contemplated hereby;

(m) will use its commercially reasonable efforts to maintain in full force and effect all insurance policies maintained by the Company on the date hereof;

(n) will not enter into any agreement to dissolve, merge, consolidate or, sell any material assets of the Company (other than in the ordinary course) or acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial equity interest in or substantial portion of the assets of, or by any other manner, any business or any corporation, partnership or other business organization or division, or otherwise acquire or agree to acquire any assets in excess of $10,000 in the aggregate; and

(o) will not make any payments to officers or directors other than in the ordinary course;

(p) will not enter into any agreements with contractors or consultants (or amend or authorize additional work orders with respect to any such existing agreements); and

(q) will not change, accelerate or alter, in each case, the payment terms of any existing contract or agreement nor enter into any contract or agreement with payment terms (including timing) not materially consistent with past practice.

6.2 Conduct of Business of Acquisition Corp. During the period commencing on the date hereof and continuing until the Effective Time, Acquisition Corp. shall not engage in any activities of any nature except as provided in or contemplated by this Agreement.

6.3 Other Negotiations. Neither the Company nor the Sole Stockholder will (nor will they permit any of their respective officers, directors, employees, agents, partners and affiliates on their behalf to) take any action to solicit, initiate, seek, encourage or support any inquiry, proposal or offer from, furnish any information to, or participate in any discussions or negotiations with, any corporation, partnership, person or other entity or group (other than Parent) regarding any acquisition of the Company, any merger or consolidation with or involving the Company or any acquisition of any material portion of the stock or assets of the Company or

any equity or debt financing of the Company or any material license of Intellectual Property rights or any business combination, recapitalization, joint venture or other major transaction involving the business of the Company (any of the foregoing being referred to in this Agreement as an "Acquisition Transaction") or enter into an agreement concerning any Acquisition Transaction with any party other than Parent. If between the date of this Agreement and the termination of this Agreement pursuant to Article XI, the Company receives from a third party any offer to negotiate or consummate an Acquisition Transaction, the Company shall (i) notify Parent immediately (orally and in writing) of such offer, including the identity of such party and the terms of any proposal therein, and (ii) notify such third party of the obligations of the Company under this Agreement.

ARTICLE VII

ADDITIONAL AGREEMENTS

7.1 Access to Properties and Records. The Company will provide (or will cause to be provided) to Parent and Parent's accountants, counsel and other authorized advisors, with reasonable access, during business hours, to its premises and properties and its books and records (including, without limitation, contracts, leases, insurance policies, litigation files, minute books, accounts, working papers and Tax Returns filed and in preparation) and will cause its officers to furnish to Parent and Parent's authorized advisors such additional financial, tax and operating data and other information pertaining to its business as Parent shall from time to time reasonably request. All of such data and information shall be kept confidential by Parent and the Company unless and until the Merger is consummated pursuant to the NDA Agreement (as hereinafter defined).

7.2 Transfer of Interests. The Sole Stockholder agrees that he (i) shall not dispose of or in any way encumber his Common Stock prior to the consummation of the transactions contemplated hereby, (ii) shall use his best efforts to cause, and take no action inconsistent with, the approval and consummation of said transactions and (iii) at the Closing shall surrender the certificates representing all shares of Common Stock owned by him, duly endorsed for transfer.

7.3 Reasonable Efforts; etc. Subject to the terms and conditions herein provided, each of the parties hereto agrees to use his, her or its commercially reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement, including obtaining any consents, authorizations, exemptions and approvals from, and making all filings with, any governmental or regulatory authority, agency or body which are necessary in connection with the transactions contemplated by this Agreement.

7.4 Material Events. At all times prior to the Effective Time, each party shall promptly notify the others in writing of the occurrence of any event which will or may result in the failure to satisfy any of the conditions specified in Article IX or Article X hereof.

7.5 Fees and Expenses. The Parent and the Company shall bear and pay all of their own fees, costs and expenses relating to the transactions contemplated by this Agreement, including, without limitation, the fees and expenses of their respective counsel, accountants, brokers and financial advisors except that if the Merger is consummated, then the Sole Stockholder shall be responsible for all such fees, costs and expenses incurred by the Company in connection with this Agreement and the transactions contemplated hereby.

7.6 Supplements to Disclosure Schedules. From time to time prior to the Effective Time, each party hereto shall supplement or amend its Disclosure Schedules with respect to any matter hereafter arising that, if existing or occurring at or prior to the date of this Agreement, would have been required to be set forth or described in its Disclosure Schedules or that is necessary to correct any information in its Disclosure Schedules or in its representations and warranties that have been rendered inaccurate thereby. The Disclosure Schedules delivered by a party hereto shall be deemed to include only that information contained therein on the date of this Agreement and shall be deemed to exclude any information contained in any subsequent supplement or amendment thereto.

7.7 Tax Matters.

(a) Preparation and Filing of Tax Returns. The Sole Stockholder shall prepare or cause to be prepared and file or cause to be filed all Tax Returns for the Company for all periods ending on or prior to the Closing Date. The Parent shall prepare or cause to be prepared and file or cause to be filed all Tax Returns of the Company (or Surviving Corporation) for all periods that (i) begin before and end after the Closing Date (each, a "Straddle Period"), and (ii) begin after the Closing Date. The Parent shall permit the Sole Stockholder to review and comment on each such Tax Return described in the preceding sentence at least thirty (30) days prior to filing and shall in good faith consider all such comments. Each such Tax Return shall be prepared in accordance with the Company's past practice in preparing its Tax Returns. The Parent shall not amend any Tax Return of the Company for any period (or portion thereof) ending on or prior to the Closing Date or any Straddle Period without the prior written approval of the Sole Stockholder.

(b) Cooperation on Tax Matters.

(i) Parent, the Company and the Sole Stockholder shall cooperate fully, as and to the extent reasonably requested by the other party, in connection with the filing of Tax Returns pursuant to this Section 7.7 and any audit, litigation or other proceeding with respect to Taxes. Such cooperation shall include the retention and (upon the other party's request) the provision of records and information which are reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. The Company and the Sole Stockholder agree (A) to retain all books and records with respect to Tax matters pertinent to the Company relating to any Tax period beginning before the Closing Date until the expiration of the statute of limitations (and, to the extent notified by Parent or to the Sole Stockholder, any extensions thereof) of the respective Tax periods, and to abide by all

record retention agreements entered into with any taxing authority, and (B) to give the other party reasonable written notice prior to transferring, destroying or discarding any such books and records and, if the other party so requests, the Company or the Sole Stockholder, as the case may be, shall allow the other party to take possession of such books and records.

(ii) Parent and the Sole Stockholder further agree, upon request, to use their commercially reasonable best efforts to obtain any certificate or other document from any governmental authority or any other Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including, but not limited to, with respect to the transactions contemplated hereby).

(iii) The parties shall use reasonable efforts to minimize the Company's Taxes resulting from the Transaction which shall at all times be in compliance with applicable Tax laws, including reasonable interpretations thereof, made in good faith.

(c) S Corporation Status. Neither the Company nor the Sole Stockholder shall revoke the election of the Company to be taxed as an S corporation within the meaning of Sections 1361 and 1362 of the Code on or prior to the Closing Date. The Company and the Sole Stockholder shall not take or allow any action that would result in the termination of the Company's status as a validly electing S corporation within the meaning of Sections 1361 and 1362 of the Code on or prior to the Closing Date (other than as contemplated by this Agreement).

(d) Refunds. All refunds relating to any period prior to the Closing Date shall be for the sole account of the Sole Stockholder. The Sole Stockholder shall be permitted to file or amend any income or franchise Tax Return of the Company relating to any period (or portion thereof) ending on or prior to the Closing Date to the extent such amendment would legally entitle the Sole Stockholder to a refund of Tax; provided, however, that the Sole Stockholder may not amend any such Tax Return that includes a period subsequent to the Closing Date without the prior written approval of the Parent or Surviving Corporation, which approval shall not be unreasonably withheld or delayed.

(e) Certain Taxes. Each party shall be responsible for and shall pay only those Taxes for which it is legally responsible under applicable Tax law; provided, however, that the Sole Stockholder shall be responsible for all Taxes that relate to a sale transaction that is deemed to occur pursuant to a §338(h)(10) Election (as such term is hereinafter defined) for the periods ending on or before the Closing Date. The Sole Stockholder will also be responsible for any transfer or sales Taxes resulting from the Merger that relate to any period ending on or before the Closing Date. The parties agree that the Sole Stockholder shall not be responsible under any circumstance for any Tax of the Parent, Acquisition Corp. Surviving Corporation or any affiliate or successor of the foregoing for any post-Closing period.

(f) Control; Dispute Resolution. Notwithstanding any provision in this Agreement to the contrary, the Sole Stockholder shall have sole control of any defense, negotiation, settlement, adjustment or other undertaking relating to income or franchise Taxes to the extent that Parent or its affiliates may seek indemnification for income or franchise Taxes

from the Sole Stockholder under Article XII or otherwise but only if such matter relates solely to periods ending on or before the Closing Date; provided, however, that Parent at its expense shall have the right to consult with the Sole Stockholder regarding such matters.

(g) Section 338(h)(10) Election. The Company and the Sole Stockholder shall join with Parent in making an election under Code §338(h)(10) (and any corresponding election under state, local, and foreign Tax law) with respect to the purchase and sale of the Company's Common Stock hereunder (collectively, a "§338(h)(10) Election"). The Sole Stockholder shall include any income, gain, loss, deduction, or other tax item resulting from the §338(h)(10) Election on his tax return to the extent required by applicable law. The Sole Stockholder shall also pay any Tax imposed on the Company or the Surviving Corporation for periods ending on or before the Closing Date that is attributable to the making of the §338(h)(10) Election, including (i) any Tax imposed under Code §1374, (ii) any tax imposed under Reg. §1.338(h)(10)-1(e)(5), or (iii) any state, local or foreign Tax imposed on the Company's gain, and the Sole Stockholder shall indemnify Parent, the Company and the Surviving Corporation against any Losses arising out of any failure to pay any such Taxes. The parties agree that the Parent (or its successor) shall at its own expense be solely responsible for taking all actions necessary to ensure the effectiveness of the §338(h)(10) Election (and similar elections).

(h) Purchase Price Allocation. Parent, the Company, the Surviving Corporation and Sole Stockholder agree that the Merger Consideration and the liabilities of the Company (plus other relevant items) will be allocated to the assets of the Company for all purposes (including Tax and financial accounting) in accordance with Code Section 1060 and the Treasury regulations promulgated thereunder (and any similar provision of state, local, or foreign law, as appropriate). Such allocation shall be duly prepared by Parent and delivered to Company within sixty (60) days of the Closing Date for reasonable approval (and if necessary, execution) and Parent shall file all Tax Returns (including amended returns and claims for refund) and information reports in a manner consistent with such allocation in accordance with Section 7.7(a).

7.8 Cash Adjustment Within sixty (60) days following the Closing, Parent shall determine the amount of the Company's cash and cash equivalents and liabilities as of the Closing. To the extent such cash and cash equivalents exceed such liabilities, such excess shall be promptly paid by the Company to the Sole Stockholder. To the extent such cash and cash equivalents are less than such liabilities, such deficit shall be promptly paid by the Sole Stockholder to the Company.

ARTICLE VIII

COVENANTS OF THE SOLE STOCKHOLDER

The Sole Stockholder hereby agrees that for a period of two (2) years following the Closing Date (the "Non-Compete Period"), that he will not, directly or indirectly, alone or as a partner, officer, director, employee, consultant, agent, independent contractor or stockholder of any company or business organization, engage in any business activity, or have a financial interest in any business activity (excepting only the ownership of not more than 1% of the

outstanding securities of any class of any entity listed on an exchange, an automated quotation system or regularly traded in the over-the-counter market), whose major source of revenue is "Performance-Based Advertising" (which includes paid listings, pay per click advertising ("PPC"), pay for placement services, paid inclusion services or banner promotions) procured directly from advertisers, advertising agencies or those entities which aggregate advertisements or advertisers (collectively, the "Advertising Parties") (the "Competitive Activity"). The Sole Stockholder further agrees that, for a period of two (2) years following the Closing Date, that he will not in any capacity, either separately, jointly or in association with others, directly or indirectly, solicit or contact in connection with, or in furtherance of, a Competitive Activity any of the employees, consultants, agents, suppliers, customers or prospects of the Company that were such with respect to the Company at any time during the one (1) year immediately preceding the date hereof or that become such with respect to the Company at any time during the one (1) year immediately following the date hereof. The Sole Stockholder's obligations under this Article VIII shall survive the termination or cessation of his employment or consultancy with the Company (if applicable) and shall not be limited by Article XII hereof.

ARTICLE IX

CONDITIONS TO THE OBLIGATIONS OF THE PARENT AND ACQUISITION CORP.

The obligation of the Parent and Acquisition Corp. to consummate the transactions contemplated hereby shall be subject to the satisfaction, on or prior to the Closing Date, of each of the following conditions (any of which may be waived in writing by the Parent and Acquisition Corp. in their sole discretion):

9.1 Representations and Warranties True. The representations and warranties of the Company and the Sole Stockholder which are contained in this Agreement, or contained in any Schedule, certificate or instrument delivered or to be delivered pursuant to this Agreement, shall be true and correct in all material respects at and as of the Closing Date as though such representations and warranties were made on and as of the Closing Date and at the Closing (i) the Company shall have delivered to the Parent and Acquisition Corp. a certificate (signed on behalf of the Company by the President of the Company to that effect with respect to all such representations and warranties made by the Company, and (ii) the Sole Stockholder shall have executed and delivered to the Parent and Acquisition Corp. a certificate to that effect with respect to all such representations and warranties made by the Sole Stockholder.

9.2 Performance. The Company and the Sole Stockholder shall have performed and complied in all material respects with all of the obligations under this Agreement which are required to be performed or complied with by them on or prior to the Closing Date, and at the Closing (i) the Company shall have delivered to the Parent and Acquisition Corp. a certificate (duly executed on behalf of the Company by the President of the Company to that effect with respect to all such obligations required to have been performed or complied with by the Company on or before the Closing Date, and (ii) the Sole Stockholder shall have executed and delivered to the Parent and Acquisition Corp. a certificate to that effect with respect to all such obligations required to have been performed or complied with by the Sole Stockholder on or before the Closing Date.

9.3 Absence of Litigation. No statute, rule or regulation shall have been enacted or promulgated, and no order, decree, writ or injunction shall have been issued and shall remain in effect, by any court or governmental or regulatory body, agency or authority which restrains, enjoins or otherwise prohibits the consummation of the transactions contemplated hereby, and no action, suit or proceeding before any court or governmental or regulatory body, agency or authority shall have been instituted by any person (or instituted or threatened by any governmental or regulatory body, agency or authority), and no investigation by any governmental or regulatory body, agency or authority shall have been commenced with respect to the transactions contemplated hereby or with respect to the Company which reasonably could have a material adverse effect on the transactions contemplated hereby or is reasonably likely to result in a Company Material Adverse Effect.

9.4 Consents. All approvals, consents, licenses, permits, orders, waivers and authorizations required to be obtained by the Company or the Sole Stockholder in connection with the Merger and the other transactions contemplated by this Agreement shall have been obtained and shall be in full force and effect.

9.5 Additional Agreements. The following agreements, forms or notices, as the case may be, shall have been executed and delivered to Parent:

(i) Consultant Agreement, in the form attached hereto as Exhibit C, executed by John Babina III (the "Consultant Agreement");

(ii) the Escrow Agreement in the form attached hereto as Exhibit B, duly executed by the Escrow Agent;

(iii) the Company shall have delivered to the Parent and to the IRS notices that the Common Stock is not a "U.S. Real Property Interest" in accordance with the Treasury Regulations under Sections 897 and 1445 of the Code, or (ii) the Sole Stockholder shall have delivered to the Parent a certification that he is not a foreign person in accordance with the Treasury Regulations under Section 1445 of the Code;

(iv) the Sole Stockholder shall deliver to Parent a completed Form W-9 on the Closing and prior to any payment of the Cash Consideration;

(vi) resignations of all officers and directors of the Company as of the Effective Time; and

(vii) Transition Services Agreement between the Company and VerisMedia, Inc. ("Versi") in the form attached hereto as Exhibit E.

9.6 Delivery of Certificates for Cancellation. The certificates representing 100% of the shares of Common Stock issued and outstanding immediately prior to the Effective Time, duly endorsed in blank, shall have been surrendered for cancellation.

9.7 Approval. The Sole Stockholder shall have voted in favor of the approval of the Merger, the adoption of this Agreement and the transactions contemplated hereby.

9.8 Certificates of Merger. The Company shall have executed and delivered to the Parent counterparts of the Certificates of Merger to be filed with the Secretary of State of the State of Delaware and the Secretary of State of the State of Connecticut in connection with the Merger.

9.9 Termination Agreement & General Release. Within seven (7) days of the Closing Date, the Sole Stockholder shall deliver to the Company a termination agreement & general release executed by Paul H. Bauco in the form attached hereto as Exhibit F.

9.10 License Agreements. That each of the following license agreements shall be amended and restated: (i) License Agreement dated as of September 18, 2003 with the Company as licensor and Versi as licensee, and (ii) License Agreement dated as of September 18, 2003 with Versi as licensor and the Company as licensee.

9.11 Material Adverse Effect. There shall not have occurred any event which is or reasonably could result in a Company Material Adverse Effect.

9.12 Supporting Documents.

The Company shall have delivered to the Parent a certificate (i) of the Secretary of State of the State of Connecticut dated as of the Closing Date, certifying as to the corporate legal existence and good standing of the Company, and (ii) of the Secretary of the Company dated the Closing Date, certifying on behalf of the Company (w) that attached thereto is a true and complete copy of the Certificate of Incorporation of the Company, as in effect on the date of such certification; (x) that attached thereto is a true and complete copy of the By-Laws of such Company, as in effect on the date of such certification; (y) that attached thereto is a true and complete copy of all resolutions adopted by the Board of Directors and the Sole Stockholder of the Company, authorizing the execution, delivery and performance of this Agreement and the consummation of the Merger; and (z) to the incumbency and specimen signature of each officer of the Company, executing on behalf of the company this Agreement and the other agreements related hereto.

ARTICLE X

CONDITIONS TO THE OBLIGATIONS OF THE
COMPANY AND THE SOLE STOCKHOLDER

The obligation of the Company and the Sole Stockholder to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction, on or prior to the Closing Date of each of the following conditions (any of which may be waived in writing by the Company and the Sole Stockholder in their sole discretion):

10.1 Representations and Warranties True. The representations and warranties of each of the Parent and Acquisition Corp. contained in this Agreement, or contained in any Schedule, certificate or other instrument or document delivered or to be delivered pursuant to this Agreement, shall be true and correct in all material respects at and as of the Closing Date as though such representations and warranties were made on and as of the Closing Date and at the Closing each of the Parent and Acquisition Corp. shall have delivered to the Company and the Sole Stockholder a certificate (with respect to Parent, signed on its behalf by its Chief Executive Officer and with respect to Acquisition Corp., signed on its behalf by its President) to that effect with respect to all such representations and warranties made by such entity.

10.2 Performance. Each of the Parent and Acquisition Corp. shall have performed and complied in all material respects with all of the obligations under this Agreement which are required to be performed or complied with by them on or prior to the Closing Date, and at the Closing each of the Parent and Acquisition Corp. shall have delivered to the Company and the Sole Stockholder a certificate (with respect to Parent, signed on its behalf by its Chief Executive Officer and with respect to Acquisition Corp., signed on its behalf by its President) to that effect with respect to all such obligations required to have been performed or complied with by such entity on or before the Closing Date.

10.3 Absence of Litigation. No statute, rule or regulation shall have been enacted or promulgated, and no order, decree, writ or injunction shall have been issued and shall remain in effect, by any court or governmental or regulatory body, agency or authority which restrains, enjoins or otherwise prohibits the consummation of the transactions contemplated hereby, and no action, suit or proceeding before any court or governmental or regulatory body, agency or authority shall have been instituted by any person (or instituted or threatened by any governmental or regulatory body, agency or authority) and no investigation by any governmental or regulatory body, agency or authority shall have been commenced with respect to the transactions contemplated hereby or with respect to the Parent or Acquisition Corp. which would have a material adverse effect on the transactions contemplated hereby or is reasonably likely to result in a Parent Material Adverse Effect.

10.4 Certificates of Merger. The Company shall have executed and delivered to the Parent counterparts of the Certificates of Merger to be filed with the Secretary of State of the State of Delaware and the Secretary of State of the State of Connecticut in connection with the Merger.

10.5 Consents. All approvals, consents, licenses, permits, orders, waivers and authorizations required to be obtained by Parent or Acquisition Corp. in connection with the Merger and the other transactions contemplated by this Agreement (including those identified on Schedule 5.3, if any) shall have been obtained and shall be in full force and effect.

10.6 Additional Agreements. The Parent shall have executed and delivered (and shall have agreed to cause the Surviving Corporation to execute and deliver immediately following the Effective Time, as applicable) counterparts of the following agreements:

(i) Consultant Agreement referred to in Section 9.5(i) hereof in the form attached hereto as Exhibit C;

(ii) Escrow Agreement referred to in Section 9.5(ii) hereof, together with counterparts signed by the Escrow Agent; and

(iii) Registration Rights Agreement in the form attached hereto as Exhibit D (the "Registration Rights Agreement").

10.7 Cash Consideration and Equity Consideration; Escrow Deposit.

(a) At the Closing the Parent shall deliver and distribute the Merger Consideration less fees and expenses pursuant to Section 7.5 in accordance with Section 2.3(a).

(b) As soon as practicable after the Closing and in any event within five (5) business days after the Closing, Parent shall deliver to the Escrow Agent the Cash Escrow and Equity Escrow which shall constitute the Escrow Deposit pursuant to Section 2.7.

10.8 Supporting Documents.

(a) The Parent shall have delivered to the Company and the Sole Stockholder (i) a certificate of the Secretary of State of the State of Delaware dated as of the Closing Date, certifying as to the corporate legal existence and good standing of Parent, (ii) a certificate of the Secretary of the Parent, dated the Closing Date, certifying on behalf of the Parent (w) that attached hereto is a true and complete copy of the Certificate of Incorporation of the Parent, as in effect on the date of such certification; (x) that attached thereto is a true and complete copy of the By-Laws of Parent as in effect on the date of such certification; (y) that attached thereto is a true and complete copy of all resolutions adopted by the Board of Directors of such Parent authorizing the execution, delivery and performance of this Agreement and the consummation of the Merger; and (z) to the incumbency and specimen signature of each officer of the Parent executing on behalf of such Parent this Agreement and the other agreements related hereto.

(b) Acquisition Corp. shall have delivered to the Company and the Sole Stockholder (i) a certificate of the Secretary of State of the State of Delaware dated as of the Closing Date, certifying as to the corporate legal existence and good standing of Acquisition Corp., (ii) a certificate of the Secretary of Acquisition Corp., dated the Closing Date, certifying on behalf of Acquisition Corp. (x) that attached thereto is a true and complete copy of the By-

Laws of such Acquisition Corp. as in effect on the date of such certification; (y) that attached thereto is a true and complete copy of all resolutions adopted by the Board of Directors and Sole Stockholder of such Acquisition Corp. authorizing the execution, delivery and performance of this Agreement and the consummation of the Merger; and (z) to the incumbency and specimen signature of each officer of Acquisition Corp. executing on behalf of such Acquisition Corp. this Agreement and the other agreements related hereto.

10.9 Material Adverse Effect. There shall not have occurred any event which is or reasonably could result in a Parent Material Adverse Effect.

10.10 Directors' and Officers' Insurance. Within thirty (30) days of the Closing Date, Parent will at its expense include the Sole Stockholder on its current Directors' and Officers' liability insurance policy, to the extent that he is eligible under the general provisions thereof and with policy limits and otherwise to be in substantially the same form and to contain substantially the same terms, conditions and exceptions as the liability insurance policies provided for other similarly situated officers and directors of the Parent in force from time to time. Parent shall maintain such policy with respect to the Sole Stockholder in effect for a period of two (2) years from the Closing Date except in the event of a breach of the Sole Stockholder's obligations under Articles VIII or XII hereof or a termination of the Consultant Agreement pursuant to Section 2(b)(ii) thereof.

ARTICLE XI

TERMINATION

11.1 Termination. This Agreement may be terminated at any time prior to the Effective Time:

(a) by the written consent of the Company and the Parent;

(b) by either the Company or the Parent:

(i) if any court or governmental or regulatory agency, authority or body shall have enacted, promulgated or issued any statute, rule, regulation, ruling, writ or injunction, or taken any other action, restraining, enjoining or otherwise prohibiting the transactions contemplated hereby and all appeals and means of appeal therefrom have been exhausted; or

(ii) if the Effective Time shall not have occurred on or before August 31, 2004 provided, however, that the right to terminate this Agreement pursuant to this Section 11.1(b)(ii) shall not be available to any party whose (or whose affiliate(s)') breach of any representation or warranty or failure to perform or comply with any obligation under this Agreement has been the cause of, or resulted in, the failure of the Effective Time to occur on or before such date; or

(iii) if there shall have been a material breach of any representation, warranty, covenant, condition or agreement on the part of the other party set forth in this Agreement which breach is incapable of cure, or if capable of cure, shall not have been cured within twenty (20) business days following receipt by the breaching party of notice of such breach; or

(c) by the Parent if the Effective Time shall not have occurred on or before August 5, 2004 solely because the Company has failed to comply with any of the closing conditions set forth in Article IX of this Agreement.

11.2 Effect of Termination. In the event of termination of this Agreement, this Agreement shall forthwith become void and there shall be no liability on the part of any of the parties hereto or (in the case of the Company, the Parent and Acquisition Corp.) their respective officers or directors, except for Sections 7.5 and 13.6, and the last sentence of Section 7.1, which shall remain in full force and effect, and except that nothing herein shall relieve any party from liability for a breach of this Agreement prior to the termination hereof. The obligations of the NDA Agreement (as defined herein) shall remain in full force and effect and shall survive any termination or expiration of the Agreement.

ARTICLE XII

INDEMNIFICATION; SURVIVAL OF REPRESENTATIONS AND WARRANTIES

12.1 Indemnity Obligations. (a) Subject to Sections 12.3 and 12.4 hereof, the Sole Stockholder by adoption of this Agreement and approval of the transactions contemplated hereby, agrees to indemnify and hold the Parent (including its representatives and affiliates) harmless from, and to reimburse the Parent for, any Losses (as that term is hereinafter defined) directly or indirectly arising out of, based upon or resulting from (i) any inaccuracy in or breach of any representation or warranty of the Company and the Sole Stockholder set forth in Article III of this Agreement or any Schedule or certificate delivered by the Company pursuant hereto; and (ii) any breach or nonfulfillment of, or any failure to perform, any of the covenants, agreements or undertakings of the Company which are contained in this Agreement. For purposes of this Agreement, the term “Losses” shall mean any and all losses, damages, deficiencies, liabilities, obligations, actions, claims, suits, proceedings, demands, assessments, judgments, recoveries, fees, diminution in value, costs and expenses (including, without limitation, all out-of-pocket expenses, reasonable investigation expenses and reasonable fees and disbursements of accountants and counsel) of any nature whatsoever; provided, however, that the magnitude of any such Loss shall take into account any Tax benefit that may be realized by the Parent or its affiliates in connection with any event or occurrence giving rise to such Loss.

(b) Subject to Sections 12.3 and 12.4 hereof, the Sole Stockholder by adoption of this Agreement and approval of the Merger hereby agrees to indemnify and hold the Parent harmless from, and to reimburse the Parent for, any Losses arising out of, based upon or resulting from (i) any inaccuracy in or breach of any representation or warranty of the Sole

Stockholder set forth in Article IV of this Agreement, or any Schedule or certificate delivered by the Sole Stockholder pursuant hereto or thereto; or (ii) any breach or nonfulfillment of, or any failure to perform, any of the covenants, agreements or undertakings of the Sole Stockholder which are contained in this Agreement, including, without limitation, the covenants set forth in Article VIII of this Agreement, or any Schedule or certificate delivered by the Sole Stockholder pursuant hereto or thereto.

12.2 Notification of Claims.

(a) Subject to the provisions of Section 12.3 below, in the event of the occurrence of an event pursuant to which the Parent shall seek indemnity pursuant to Section 12.1, the Parent shall provide the Sole Stockholder with prompt written notice (a "Claim Notice") of such event and shall otherwise promptly make available to the Sole Stockholder, all relevant information which is material to the claim and which is in the possession of the indemnified party. Parent's failure to give a timely Claims Notice or to promptly furnish the Sole Stockholder, with any relevant data and documents in connection with any Third-Party Claim (as that term is hereinafter defined) shall not constitute a defense (in part or in whole) to any claim for indemnification by such party, except and only to the extent that such failure shall result in any prejudice to the Sole Stockholder.

(b) The Sole Stockholder shall have the right to elect to join in, through counsel of its choosing reasonably acceptable to Parent, the defense, settlement, adjustment or compromise of any claim of any third party (a "Third Party Claim") for which indemnification will be sought by the Parent; provided; however, that Parent shall control such defense, settlement, adjustment or compromise. The expense of any such defense, settlement, adjustment or compromise, including Parent's counsel and any counsel chosen by the Sole Stockholder shall be borne by the Sole Stockholder; provided, such expenses shall be paid from the Escrow Deposit for indemnification sought pursuant to Section 12.1. Parent shall have the right to settle any such Third Party Claim; provided, however, that Parent may not effect the settlement, adjustment or compromise of any such Third Party Claim without the written consent of the Sole Stockholder, which consent shall not be unreasonably withheld. In the event the indemnification sought by the Parent involves a breach or alleged breach of the representations and warranties set forth in Section 3.11, the Parent and Surviving Corporation shall use commercially reasonable efforts to mitigate the liability of the Sole Stockholder on account thereof. Furthermore, Parent hereby agrees to extend to the Surviving Corporation or any successor thereto, any intellectual property risk management initiatives implemented by the Parent or a wholly-owned subsidiary of Parent, to the extent such intellectual property risk management initiatives reasonably might mitigate shared intellectual property risks between the Parent or any wholly owned subsidiary of Parent, and the Surviving Corporation, or any successor thereto.

12.3 Duration. All representations and warranties of the Company and the Sole Stockholder set forth in this Agreement and any Schedules or certificates delivered pursuant hereto or thereto, and all covenants, agreements and undertakings of the Company and the Sole Stockholder contained in or made pursuant to this Agreement and any Schedules or certificates delivered pursuant hereto or thereto, and the rights of the parties to seek indemnification with

respect thereto (all of the foregoing collectively, the "Indemnifiable Matters"), shall survive the Closing but, except in respect of any claims for indemnification as to which a Claim Notice shall have been duly given prior to the Escrow Release Date (as defined below) and also as provided in the immediately following sentence, all Indemnifiable Matters shall expire on the one (1) year anniversary of the Closing Date (the "Escrow Release Date"). Notwithstanding the foregoing, (a) Indemnifiable Matters arising from breaches of the covenants contained in Article VIII shall survive the Closing Date until the two (2) year anniversary of the Closing Date; (b) Indemnifiable Matters (i) arising from breaches of the covenants contained in Section 7.7 (all such obligations in (a) and (b), collectively, the "Excluded Obligations"); and (ii) arising from breaches of the representations and warranties set forth in Sections 3.1, 3.2, 3.4, 3.9 and Article IV**,** shall each survive the Closing Date for the applicable statute of limitations period ; and (c) Indemnifiable Matters arising from breaches of the representation and warranties set forth in Section 3.11 (the "Section 3.11 Indemnifiable Matters") shall survive the Closing Date until the four (4) year anniversary of the Closing Date. Notwithstanding the foregoing, claims for breaches of the representations and warranties relating to or arising from fraud shall be independent of, and shall not be limited by, the Agreement.

12.4 Escrow; Limitation of Liability. Pursuant to Section 2.7 hereof, the Escrow Deposit shall be delivered by Parent to the Escrow Agent, to be held for a period ending on the Escrow Release Date, except the Escrow Deposit may be withheld after the Escrow Release Date for so long as is reasonably necessary to satisfy claims for indemnification which are the subject to a Claims Notice delivered prior to the Escrow Release Date. The Escrow Deposit shall be held and disbursed by the Escrow Agent in accordance with an Escrow Agreement in the form attached hereto as Exhibit B. If the Closing occurs, Parent and Acquisition Corp. agree that the Parent's right to indemnification pursuant to this Article XII shall constitute Parent's and Acquisition Corp.'s sole and exclusive remedy and recourse against the Sole Stockholder for Losses attributable to any Indemnifiable Matters. Except with respect to the Excluded Obligations and the Section 3.11 Indemnifiable Matters, the maximum aggregate liability of the Sole Stockholder shall be limited to the Escrow Deposit. The maximum aggregate liability of the Sole Stockholder for the Excluded Obligations shall be limited to the Cash Consideration to which the Sole Stockholder is entitled (less any amount previously recovered under this Article XII from the Escrow Deposit on account thereof). The maximum aggregate liability of the Sole Stockholder for the Section 3.11 Indemnifiable Matters shall be limited as follows (less any amount previously recovered under this Article XII from the Escrow Deposit on account thereof): (a) for Section 3.11 Indemnifiable Matters arising during the period beginning on the Closing Date and continuing until the one (1) year anniversary of the Closing Date, the maximum liability shall be limited to 80% of the Equity Consideration, (b) for Section 3.11 Indemnifiable Matters arising during the period beginning on the day after the one (1) year anniversary of the Closing Date and continuing until the two (2) year anniversary of the Closing Date, the maximum liability of the Sole Stockholder shall be limited to 70% of the Equity Consideration, (c) for Section 3.11 Indemnifiable Matters arising during the period beginning on the day after the two (2) year anniversary of the Closing Date and continuing until the three (3) year anniversary of the Closing Date, the maximum liability of the Sole Stockholder shall be limited to 40% of the Equity Consideration, and (iv) for Section 3.11 Indemnifiable Matters arising during the period beginning on the day after the three (3) year anniversary of the Closing

Date and continuing until the four (4) year anniversary of the Closing Date, the maximum liability of the Sole Stockholder shall be limited to 20% of the Equity Consideration. Such Section 3.11 Indemnifiable Matters limitations of liabilities shall be cumulative and not additive. To the extent that all or any portion of the Equity Consideration is sold, disposed of or otherwise transferred by the Sole Stockholder or any affiliate in an arms-length transaction, then with respect to and in lieu of the shares of Parent Common Stock so sold, Parent shall be entitled to recover against any and all cash or other proceeds so obtained, net of any taxes incurred as a result of such sale. Notwithstanding anything to the contrary contained herein, the Sole Stockholder shall have no liability for indemnification pursuant to this Article XII until the aggregate Losses are in excess of $25,000, at which point the Sole Stockholder shall be liable for the full amount of all Losses including such amount. Any Losses payable pursuant to this Section 12.4 from the Escrow Deposit shall be paid from the Cash Escrow and the Equity Escrow in the same proportion as such Cash Escrow and Equity Escrow bears to the total Escrow Deposit, except as otherwise provided herein.

ARTICLE XIII

MISCELLANEOUS PROVISIONS

13.1 Amendment. This Agreement may be amended by the parties hereto at any time by execution of an instrument signed on behalf of the party against whom enforcement is sought.

13.2 Waiver of Compliance. Except as otherwise provided in this Agreement, any failure of any of the parties to comply with any obligation, covenant or agreement contained herein may be waived only by a written notice from the party or parties entitled to the benefits thereof. No failure by any party hereto to exercise, and no delay in exercising, any right hereunder, shall operate as a waiver thereof, nor shall any single or partial exercise of any right hereunder preclude any other or future exercise of that right by that party.

13.3 Notices. All notices and other communications hereunder shall be deemed given if given in writing and delivered personally, by registered or certified mail, return receipt requested, postage prepaid, or by overnight courier to the party to receive the same at its respective address set forth below (or at such other address as may from time to time be designated by such party to the others in accordance with this Section 13.3):

(a) if to the Company or the Sole Stockholder, to:

goClick.com, Inc.
19 Rising Road
Norwalk, CT 06850
Attention: John Babina III, President

with copies to:

Mladen D. Kresic, LLC
7 Big Shop Lane
Ridgefield, CT 06877
Attention: Mladen D. Kresic, Esq.

(b) if to the Parent or Acquisition Corp., to:

Marchex, Inc.
413 Pine Street, Suite 500
Seattle, WA 98101
Attention: Ethan A. Caldwell, General Counsel

with copies to:

Nixon Peabody LLP
100 Summer Street
Boston, MA 02110
Attention: Francis J. Feeney, Jr., Esq.

All such notices and communications hereunder shall be deemed given when received, as evidenced by the signed acknowledgment of receipt of the person to whom such notice or communication shall have been personally delivered, the acknowledgment of receipt returned to the sender by the applicable postal authorities or the confirmation of delivery rendered by the applicable overnight courier service.

13.4 Binding Effect; Assignment. This Agreement, and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors (or, in the case of the Sole Stockholder, his heirs, administrators, executors and personal representatives) and permitted assigns. Neither this Agreement nor any rights, duties or obligations hereunder shall be assigned by any party hereto without the prior written consent of the other parties hereto, except by Parent to any successor to its business or to any affiliate as long as Parent remains ultimately liable for all of Parent's obligations hereunder.

13.5 No Third Party Beneficiaries. Neither this Agreement or any provision hereof nor any Schedule, certificate or other instrument delivered pursuant hereto, nor any agreement to be entered into pursuant hereto or any provision hereof, is intended to create any right, claim or remedy in favor of any person or entity, other than the parties hereto and their respective successors (or, in the case of the Sole Stockholder, his heirs, administrators, executors and personal representatives) and permitted assigns and any other parties indemnified under Article XII.

13.6 Public Announcements. Promptly after the Effective Time, the Parent shall issue a press release in such form as reasonably acceptable to the Sole Stockholder and none of the parties hereto shall, except as agreed by the Parent and the Sole Stockholder, or except as may be required by law or applicable regulatory authority (including without limitation the rules applicable to Nasdaq National Market companies), issue any other reports, releases, announcements or other statements to the public relating to the transactions contemplated hereby.

13.7 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

13.8 Headings. The article and section headings contained in this Agreement are solely for convenience of reference, are not part of the agreement of the parties and shall not be used in construing this Agreement or in any way affect the meaning or interpretation of this Agreement.

13.9 Entire Agreement. This Agreement, and the Schedules, certificates and other instruments and documents delivered pursuant hereto, together with the other agreements referred to herein and to be entered into pursuant hereto, embody the entire agreement of the parties hereto in respect of, and there are no other agreements or understandings, written or oral, among the parties relating to the subject matter hereof, other than the nondisclosure agreement entered into between the Parent, the Company and the Sole Stockholder dated July 8, 2004 (the "NDA Agreement"). This Agreement supercedes all other prior agreements and understandings, written or oral, between the parties with respect to such subject matter, other than the NDA Agreement.

13.10 Governing Law. The parties hereby agree that this Agreement, and the respective rights, duties and obligations of the parties hereunder, shall be governed by and construed in accordance with the General Corporation Law of the State of Delaware without giving effect to principles of conflicts of law thereunder. Each of the parties hereby (i) irrevocably consents and agrees that any legal or equitable action or proceeding arising under or in connection with this Agreement shall be brought exclusively in the federal or state courts sitting in Dover, Delaware and any court to which an appeal may be taken in any such litigation, and (ii) by execution and delivery of this Agreement, irrevocably submits to and accepts, with respect to any such action or proceeding, for itself and in respect of its properties and assets, generally and unconditionally, the jurisdiction of the aforesaid courts, and irrevocably waives any and all rights such party may now or hereafter have to object to such jurisdiction.

13.11 Severability. In the event that any clause or portion of this Agreement shall be held to be invalid, illegal, unenforceable, or in violation of any law or public policy, such a finding shall not affect the balance of the terms contained herein, and the parties shall be charged with the responsibility of continuing to carry out the terms and conditions of this Agreement in a manner consistent therewith. Moreover, if one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to scope, activity or subject or otherwise unreasonable so as to be unenforceable at law, such provision or provisions shall be construed by the appropriate judicial body by limiting and reducing it or them, so as to be enforceable to the maximum extent compatible with the applicable law as it shall then appear.

13.12 Specific Performance. In addition to any and all other remedies that may be available at law in the event of any breach of this Agreement, the parties hereto shall be entitled to specific performance of the agreements and obligations hereunder and to such other injunctive or other equitable relief as may be granted by a court of competent jurisdiction, without the necessity of posting a bond or proving actual damages.

13.13 Waiver of Jury Trial. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY AND ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT, OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE ACTIONS OF ANY PARTY HERETO IN NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT HEREOF.

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COUNTERPART SIGNATURE PAGE
TO AGREEMENT AND PLAN OF MERGER

IN WITNESS WHEREOF, the Parent, Acquisition Corp., the Company, and the Sole Stockholder named below have caused this Agreement to be duly executed and delivered as an instrument under seal as of the date first above written.

PARENT:

MARCHEX, INC.

By: /s/ RUSSELL C. HOROWITZ
Name: Russell C. Horowitz
Title: Chief Executive Officer

ACQUISITION CORP.:

PROJECT TPS, INC.

By: /s/ RUSSELL C. HOROWITZ
Name: Russell C. Horowitz
Title: President

COMPANY:

GOCLICK.COM, INC.

By: /s/ JOHN BABINA III
Name: John Babina III
Title: President

SOLE STOCKHOLDER:

/s/ JOHN BABINA III
John Babina III, individually

Exhibit 10.13

FORM OF FIRST AMENDMENT TO RETENTION AGREEMENT

This Form of First Amendment to Retention Agreement (the "Amendment") is made effective as of May 8, 2009, by and between Marchex, Inc., a Delaware corporation (the "Company"), and ("Executive"), in order to amend the Retention Agreement entered into between the Company and Executive effective as of October 2, 2006 (the "Retention Agreement").

WHEREAS, the parties desire to enter into this Amendment to confirm the parties' understanding of the intent of Section 1 of the Retention Agreement and to otherwise bring the provisions of the Retention Agreement into documentary compliance with the applicable requirements of Section 409A of the Internal Revenue Code, as amended (the "Code"), and the Treasury Regulations issued thereunder ("Section 409A").

NOW, THEREFORE, in consideration of the mutual covenants and promises herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Executive hereby agree as follows:

1. Section 1 of the Retention Agreement is amended in its entirety to read as follows:

> 1. Payment Upon a Change of Control. In the event of a Change of Control (as defined below) and provided that Executive remains employed by the Company until the date of the Change of Control, the Company shall, within thirty (30) days of such Change of Control or such later date as is required by Section 409A(a)(2)(B)(i) of the Code, make a lump sum cash payment to Executive equal to two (2) times the product of the Executive's Annual Salary (as defined below) plus the greater of the aggregate amount of any bonuses paid to or earned by the Executive with respect to the Company's immediately prior fiscal year or such Executive's pro rata portion of the aggregate bonus pool under the Company's Annual Incentive Plan (the "Plan") for the then current fiscal year assuming achievement under the Plan of the maximum performance targets for such fiscal year.

2. Section 3(a) of the Retention Agreement is amended in its entirety to read as follows:

> (a) "Annual Salary" shall mean Executive's annualized base salary (including Executive's monthly car allowance, if any) in effect immediately prior to the date of the Change of Control.

3. Section 4 of the Retention Agreement is amended by adding at the end thereof the following:

> The Company shall pay the Gross-Up Payment to Executive no later than the last day of Executive's taxable year following the taxable year in which Executive remits the Excise Tax.

4. Section 6 of the Retention Agreement is amended by adding at the end thereof the following:

Except as otherwise permitted by Section 409A, any reimbursement to which Executive is entitled pursuant to this Section 6 shall (a) be paid no later than the last day of Executive's taxable year following the taxable year in which the expense was incurred, (b) not be affected by the amount of expenses eligible for reimbursement in any other taxable year, and (c) not be subject to liquidation or exchange for another benefit.

5. A new Section 15 is added to the Retention Agreement to read as follows:

15. Separation from Service; Delay in Payment to Specified Employee. Notwithstanding anything set forth in this Agreement to the contrary, no amount payable pursuant to this Agreement on account of Executive's termination of employment with the Company which constitutes a "deferral of compensation" within the meaning of Section 409A shall be paid unless and until Executive has incurred a "separation from service" within the meaning of Section 409A. Furthermore, if Executive is a "specified employee" within the meaning of Section 409A as of the date of the Executive's separation from service, no amount that constitutes a deferral of compensation which is payable on account of Executive's separation from service shall be paid to Executive before the date (the "Delayed Payment Date") which is first day of the seventh month after the date of Executive's separation from service or, if earlier, the date of Executive's death following such separation from service. All such amounts that would, but for this Section 15, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

6. A new Section 16 is added to the Retention Agreement to read as follows:

16. Compliance with Section 409A. The Company intends that income provided to Executive pursuant to this Agreement will not be subject to taxation under Section 409A. The provisions of this Agreement shall be interpreted and construed in favor of satisfying any applicable requirements of Section 409A. However, the Company does not guarantee any particular tax effect for income provided to Executive pursuant to this Agreement. In any event, except for the responsibility of the Company to withhold applicable income and employment taxes from compensation paid or provided to Executive, the Company shall not be responsible for the payment of any applicable taxes incurred by Executive on compensation paid or provided to Executive pursuant to this Agreement.

7. Except as set forth herein, all other terms and conditions of the Retention Agreement will remain in full force and effect.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment as a sealed instrument as of the day and year first above written.

MARCHEX, INC.

By: _____
Name:
Title:

EXECUTIVE:

_____
Name:

Exhibit 10.14

REVISED FORM OF RETENTION AGREEMENT

This Revised Form of Retention Agreement (the "Agreement") is entered into effective this 8th day of May 2009, between Marchex, Inc., a Delaware corporation (the "Company") and (the "Executive").

WITNESSETH:

WHEREAS, Executive is employed by the Company or one of its wholly-owned subsidiaries (referred to collectively as the "Company") and the Company desires to provide certain security to Executive in connection with any potential change in control of the Company; and

NOW, THEREFORE, it is hereby agreed by and between the parties, for good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, as follows:

1. Payment Upon a Change of Control. In the event of a Change of Control (as defined below) and provided that Executive remains employed by the Company until the date of the Change of Control, the Company shall, within thirty (30) days of such Change of Control or such later date as is required by Section 409A(a)(2)(B)(i) of the Internal Revenue Code of 1986, as amended (the "Code), make a lump sum cash payment to Executive equal to two (2) times the product of the Executive's Annual Salary (as defined below) plus the greater of the aggregate amount of any bonuses paid to or earned by the Executive with respect to the Company's immediately prior fiscal year or such Executive's pro rata portion of the aggregate bonus pool under the Company's Annual Incentive Plan (the "Plan") for the then current fiscal year assuming achievement under the Plan of the maximum performance targets for such fiscal year.

2. Benefits Upon a Change of Control. If within twelve (12) months following a Change of Control (as defined below): (i) the Company shall terminate the Executive's employment with the Company without Cause (as defined below), or (ii) the Executive shall voluntarily terminate such employment with Good Reason (as defined below), the Company shall provide reimbursement of health care premiums for Executive and his dependents, for a period of eighteen (18) months from the date of Executive's Employment Termination (as defined below), to the extent that Executive is eligible for and elects continuation coverage under COBRA (provided that such reimbursement shall terminate upon commencement of new employment by an employer that offers health care coverage to its employees).

3. Definitions. For purposes of this Agreement:

(a) "Annual Salary" shall mean Executive's annualized base salary (including Executive's monthly car allowance, if any) in effect immediately prior to the date of the Change of Control.

(b) "Cause" shall mean that the Company's Board of Directors (the "Board") has reasonably determined in good faith that any one or more of the following has occurred:

(i) the Executive shall have been convicted of, or shall have pleaded guilty or nolo contendere to, any felony;

(ii) the Executive shall have willfully failed or refused to carry out the reasonable and lawful instructions of the Board (other than as a result of illness or disability) concerning duties or actions consistent with the Executive's then current position in a timely manner and otherwise in a manner reasonable acceptable to the Board and such failure or refusal shall have continued for a period of ten (10) days following written notice from the Board describing such failure or refusal in reasonable detail;

(iii) the Executive shall have breached any material provision of his confidentiality and assignment of inventions agreement; or

(iv) the Executive shall have committed any material fraud, embezzlement, misappropriation of funds, breach of fiduciary duty or other act of dishonesty against the Company.

(c) "Change of Control" shall mean the occurrence of any of the following events:

(i) an acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any "Person" or "Group" (as such terms are used for the purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) immediately after which such Person or Group has Beneficial Ownership (within the meaning of Rule l3d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the combined voting power of the Company's then-outstanding Voting Securities; provided, however, in determining whether or not a Change of Control has occurred, Voting Securities which are acquired in a "Non-Control Acquisition" (as hereinafter defined) shall not constitute an acquisition which would constitute a Change of Control. A "Non-Control Acquisition" shall mean an acquisition by (i) any employee benefit plan (or related trust) sponsored or maintained by the Company or any affiliate of the Company, (ii) the Company, (iii) any Person in connection with a Non-Control Transaction (as hereinafter defined), or (iv) any holder of the Company's Class A Common Stock as of the date hereof;

(ii) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) the consummation of:

(a) A merger, consolidation or reorganization with or into the Company or in which securities of the Company are issued, unless such merger, consolidation or reorganization is a "Non-Control Transaction". A "Non-Control Transaction" is a merger, consolidation or reorganization with or into the Company or in which securities of the Company are issued where:

A. the shareholders of the Company immediately before such merger, consolidation, or reorganization, own, directly or indirectly, at least fifty-one percent (51%) of the combined voting power of the outstanding voting securities of the corporation resulting form such merger, consolidation or reorganization (the "Surviving Corporation") in substantially the same

proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization,

B. the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least a majority of the members of the board of directors of the Surviving Corporation or a corporation owning directly or indirectly fifty-one percent (51%) or more of the Voting Securities of the Surviving Corporation, and

C. no Person or Group, other than (i) the Company, (ii) any subsidiary of the Company, (iii) any employee benefit plan (or any trust forming a part thereof) maintained by the Company immediately prior to such merger, consolidation, or reorganization, or (iv) any holder of the Company's Class A Common Stock as of the date hereof, owns twenty percent (20%) or more of the combined voting power of the Surviving Corporation's then-outstanding voting securities; or

(b) a complete liquidation or dissolution of the Company; or

(c) the sale of disposition of all or substantially all of the assets of the Company to any Person.

Notwithstanding the foregoing, a Change of Control shall not be deemed to occur solely because any Person (the "Subject Person") acquired Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person, provided that if a Change of Control would occur (but for the operation of this sentence) and after such acquisition of Voting Securities by the Company, the Subject Person becomes the Beneficial Owner of any additional Voting Securities, then a Change of Control shall occur.

(d) "Employment Termination" shall mean the effective date of: (i) Executive's voluntary termination of employment with the Company with Good Reason, or (ii) the termination of Executive's employment by the Company without Cause.

(e) "Good Reason" shall exist if, without Executive's express written consent, the following occurs:

(i) a material diminution in the nature or scope of the Executive's duties, responsibilities, authority, powers or functions as compared to the Executive's duties, responsibilities, authority, powers or functions immediately prior to the Change of Control;

(ii) if the Executive is no longer (a) an executive officer of a publicly-traded company, or (b) a Section 16 reporting person under the 1934 Act;

(iii) a reduction in the Executive's Annual Salary; or

(iv) the relocation of Executive's office at which he is to perform his duties and responsibilities hereunder to a location more than sixty (60) miles from Seattle, Washington.

4. Certain Additional Payments by the Company. In the event it shall be determined at any time that as a result, directly or indirectly, of any payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), the Executive would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax), then the Executive shall be entitled to promptly receive from the Company an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, but excluding any income taxes on the Payment, the Executive is in the same after-tax position as if no Excise Tax had been imposed upon the Executive. The Company shall pay the Gross-Up Payment to Executive no later than the last day of Executive's taxable year following the taxable year in which Executive remits the Excise Tax.

5. Mitigation and Set-Off. Executive shall not be required to mitigate Executive's damages by seeking other employment or otherwise, and except as expressly provided in Section 2 of this Agreement, the Company's obligations under this Agreement shall not be reduced in any way by reason of any compensation or benefits received (or foregone) by Executive from sources other than the Company after Executive's employment termination, or any amounts that might have been received by Executive in other employment had Executive sought other employment.

6. Attorney's Fees. In the event that any suit or action is instituted to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals. Except as otherwise permitted by Section 409A, any reimbursement to which Executive is entitled pursuant to this Section 6 shall (a) be paid no later than the last day of Executive's taxable year following the taxable year in which the expense was incurred, (b) not be affected by the amount of expenses eligible for reimbursement in any other taxable year, and (c) not be subject to liquidation or exchange for another benefit.

7. Assignment and Transfer. This Agreement shall not be terminated by the merger or consolidation of the Company with any corporate or other entity or by the transfer of all or substantially all of the assets of the Company to any other person, corporation, firm or entity. In the event of a sale of all or substantially all of the assets of the Company and in connection with such sale the person or entity purchasing such assets does not assume this Agreement, the Executive shall have the right to terminate his employment hereunder for Good Reason. The provisions of this Agreement shall be binding on and shall inure to the benefit of any such successor in interest to the Company. Neither this Agreement nor any of the rights, duties or obligations of the Executive shall be assignable by the Executive, nor shall any of the payments required or permitted to be made to the Executive by this Agreement be encumbered, transferred or in any way anticipated, except as required by applicable laws.

8. Severable Provisions. The provisions of this Agreement are severable and the invalidity of any one or more provisions shall not affect the validity of any other provision.

9. Withholding. The Company may withhold from any payment that it is required to make under this Agreement amounts sufficient to satisfy applicable withholding requirements under any federal, state or local law.

10. Amendment. This Agreement may be amended at any time by written agreement between the Company and Executive.

11. Financing. Cash and benefit payments under this Agreement shall constitute general obligations of the Company. Executive shall have only an unsecured right to payment thereof out of the general assets of the Company. Notwithstanding the foregoing, the Company may, by agreement with one or more trustees to be selected by the Company, create a trust on such terms, as the Company shall determine, to make payments to Executive in accordance with the terms of this Agreement.

12. Notices. All notices hereunder shall be in writing and shall be deemed to have been duly given on the date of personal delivery; or on the date of electronic confirmation of receipt, if sent by telecopier; or three (3) days after deposit in the United States mail, if mailed by certified or registered mail, return receipt requested (postage prepaid); or one (1) day after delivery by a reputable overnight courier (delivery charges prepaid), as follows:

If to the Company:
Marchex, Inc.
413 Pine Street, Suite 500
Seattle, WA 98101
Telephone No.: (206) 331-3310
Facsimile No: (206) 331-3696
Attention: General Counsel

Copy to:
Francis J. Feeney, Jr., Esq.
DLA Piper LLP (US)
33 Arch Street, 26th floor
Boston, MA 02110
Telephone No: (617) 406-6063
Facsimile No: (617) 406-6163

If to the Executive:

Telephone No.:
Facsimile No.:

or to such other address as a party may notify the other pursuant to a notice given in accordance with this Section 12.

13. Governing Law. This Agreement shall be construed under and enforced in accordance with the internal substantive laws of the State of Washington. Any litigation arising out of or incidental to this Agreement shall be initiated only in a court of competent jurisdiction located within the State of Washington. Each party hereby consents to the personal jurisdiction of the State of Washington, acknowledges that venue is proper in any state or Federal court in the State of Washington, agrees that any action related to this Agreement must be brought in a state or Federal court in the State of Washington and waives any objection that may exist, now or in the future, with respect to any of the foregoing.

14. Employment. This Agreement shall not be construed as creating an express or implied contract of employment and, except as otherwise agreed to in writing between the Executive and the Company, the Executive shall not have any right to be retained in the employ of the Company.

15. Separation from Service; Delay in Payment to Specified Employee. Notwithstanding anything set forth in this Agreement to the contrary, no amount payable pursuant to this Agreement on account of Executive's termination of employment with the Company which constitutes a "deferral of compensation" within the meaning of Section 409A shall be paid unless and until Executive has incurred a "separation from service" within the meaning of Section 409A. Furthermore, if Executive is a "specified employee" within the meaning of Section 409A as of the date of the Executive's separation from service, no amount that constitutes a deferral of compensation which is payable on account of Executive's separation from service shall be paid to Executive before the date (the "Delayed Payment Date") which is first day of the seventh month after the date of Executive's separation from service or, if earlier, the date of Executive's death following such separation from service. All such amounts that would, but for this Section 15, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

16. Compliance with Section 409A. The Company intends that income provided to Executive pursuant to this Agreement will not be subject to taxation under Section 409A. The provisions of this Agreement shall be interpreted and construed in favor of satisfying any applicable requirements of Section 409A. However, the Company does not guarantee any particular tax effect for income provided to Executive pursuant to this Agreement. In any event, except for the responsibility of the Company to withhold applicable income and employment taxes from compensation paid or provided to Executive, the Company shall not be responsible for the payment of any applicable taxes incurred by Executive on compensation paid or provided to Executive pursuant to this Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as an instrument under seal on the day and year first written above.

MARCHEX, INC.

By: _____
Name:
Title:

EMPLOYEE:

_____
Name:

Exhibit 10.15

FORM OF FIRST AMENDMENT TO RESTRICTED STOCK AGREEMENT

This Form of First Amendment to Restricted Stock Agreement (the "Amendment") is made effective as of May 8, 2009, by and between Marchex, Inc., a Delaware corporation (the "Company"), and ("Participant"), in order to amend the Restricted Stock Agreement entered into between the Company and Participant effective as of January 1, 2007 (the "Restricted Stock Agreement").

WHEREAS, the parties desire to enter into this Amendment to otherwise bring the provisions of the Restricted Stock Agreement into documentary compliance with the applicable requirements of Section 409A of the Internal Revenue Code, as amended (the "Code"), and the Treasury Regulations issued thereunder ("Section 409A").

NOW, THEREFORE, in consideration of the mutual covenants and promises herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Participant hereby agree as follows:

1. Section 7 of the Restricted Stock Agreement shall be amended and restated in its entirety to read as follows:

7. Taxes; Section 83(b) Election. The Participant acknowledges that (i) no later than the date on which any Restricted Stock shall have become vested or upon the filing of an election under Section 83(b) as provided below, the Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding payment of, any federal, state or local taxes of any kind required by law to be withheld with respect to any Restricted Stock which shall have become so vested; and (ii) the Company shall, to the extent permitted by law, have the right to deduct from any payment of any kind otherwise due to the Participant any federal, state or local taxes of any kind required by law to be withheld with respect to any Restricted Stock which shall have become so vested or other withholding taxes that are required by law, including that the Company may, but shall not be required to, sell a number of Shares sufficient to cover applicable withholding taxes. Subject to the Participant's compliance with the Company's policy on Insider Trading (as in effect from time to time), the Participant may elect to pay the Company his or her obligations for the payment of such taxes through a special sale and remittance procedure commonly referred to as a *"cashless exercise" or "sell to cover"* transaction pursuant to which the Participant shall concurrently provide irrevocable written instructions: (i) to the Company's designated stock plan administrator to effect the immediate sale of a sufficient number of the Shares acquired upon the vesting of the Shares to enable the Company's designated stock plan administrator to remit, out of the sales proceeds available upon the settlement date, sufficient funds to the Company to cover all applicable federal, state and local income and employment taxes required to be withheld by the Company by reason of such vesting and/or sale; and (ii) to the Company to deliver any certificate(s) or other evidence of ownership for such sold Shares directly to the Company's designated stock plan

administrator in order to complete the sale transaction. The Participant also acknowledges that it is his or her sole responsibility, and not the Company's, to file timely and properly any election under Section 83(b) of the Code, and any corresponding provisions of state tax laws, if the Participant wishes to utilize such election.

2. Section 9 of the Restricted Stock Agreement is amended by adding at the end thereof the following:

The Company shall pay the Gross-Up Payment to Participant no later than the last day of Participant's taxable year following the taxable year in which Participant remits the Excise Tax.

3. Section 17 of the Restricted Stock Agreement is amended by adding at the end thereof the following:

Except as otherwise permitted by Section 409A, any reimbursement to which Participant is entitled pursuant to this Section 17 shall (a) be paid no later than the last day of Participant's taxable year following the taxable year in which the expense was incurred, (b) not be affected by the amount of expenses eligible for reimbursement in any other taxable year, and (c) not be subject to liquidation or exchange for another benefit.

4. A new Section 22 is added to the Restricted Stock Agreement to read as follows:

22. Compliance with Section 409A. The Company intends that income provided to Participant pursuant to this Agreement will not be subject to taxation under Section 409A. The provisions of this Agreement shall be interpreted and construed in favor of satisfying any applicable requirements of Section 409A. However, the Company does not guarantee any particular tax effect for income provided to Participant pursuant to this Agreement. In any event, except for the responsibility of the Company to withhold applicable income and employment taxes from compensation paid or provided to Participant, the Company shall not be responsible for the payment of any applicable taxes incurred by Participant on compensation paid or provided to Participant pursuant to this Agreement.

5. Except as set forth herein, all other terms and conditions of the Restricted Stock Agreement will remain in full force and effect.

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IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment as a sealed instrument as of the day and year first above written.

COMPANY:

MARCHEX, INC.

By: _____
Name:
Title:

PARTICIPANT:

_____
Name:
Address: _____

_____

Exhibit 10.16

FIRST AMENDMENT TO EXECUTIVE EMPLOYMENT AGREEMENT

This First Amendment to Executive Employment Agreement (the "Amendment") is made effective as of May 8, 2009, by and between Marchex, Inc., a Delaware corporation ("Marchex"), and Michael A. Arends ("Executive"), in order to amend the Executive Employment Agreement entered into between Marchex and Executive effective as of May 1, 2003 (the "Executive Employment Agreement").

WHEREAS, the parties desire to enter into this Amendment to bring the provisions of the Executive Employment Agreement into documentary compliance with the applicable requirements of Section 409A of the Internal Revenue Code, as amended, and the Treasury Regulations issued thereunder ("Section 409A").

NOW, THEREFORE, in consideration of the mutual covenants and promises herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Marchex and Executive hereby agree as follows:

1. Section 5.02(b) the Executive Employment Agreement is amended in its entirety to read as follows:

(b) Termination Other than for Cause, or for Death, Disability or Good Reason. If (i) Executive ceases to be a Marchex employee on account of (A) Marchex's termination of Executive's employment other than for Cause, (B) Disability, (C) Executive's death, or (ii) Executive resigns his employment with Marchex after giving Marchex notice of the occurrence of one or more events that constitute Good Reason within a reasonable period (but not more than ninety (90) days after such occurrence) and Marchex fails to correct such occurrence within a reasonable time (but not more than sixty (60) days) and Executive's resignation occurs within ten (10) days after the expiration of that cure period, then in addition to the amounts payable under Section 5.02(a):

(A) The stock options held by Executive shall become fully vested, and

(B) If Executive ceases to be an employee within the first three (3) years of his employment, Marchex shall pay Executive, an amount equal to one fourth (1/4) of the amount that is Executive's Salary. For each additional year after three (3) full years of employment, Executive shall be entitled to an additional amount equal to one twelfth (1/12) of the amount that is Executive's Salary; provided, however, that in no event shall Executive be entitled to an amount equal to more than one (1) year's Salary. Except as otherwise provided by Section 5.02(e), payment pursuant to this subsection (B) shall made on the tenth (10th) day following the date on which Executive ceases to be a Marchex employee.

2. Section 5.02 Executive Employment Agreement is amended to add at the end thereof the following new subsection (e):

(e) Separation from Service; Delay in Payment to Specified Employee. Notwithstanding anything set forth in this Section 5.02 to the contrary, no amount payable pursuant to this Section 5.02 on account of Executive's termination of employment with Marchex which constitutes a "deferral of compensation" within the meaning of Section 409A shall be paid unless and until Executive has incurred a

"separation from service" within the meaning of Section 409A. Furthermore, if Executive is a "specified employee" within the meaning of Section 409A as of the date of the Executive's separation from service, no amount that constitutes a deferral of compensation which is payable on account of Executive's separation from service shall be paid to Executive before the date (the "Delayed Payment Date") which is first day of the seventh month after the date of Executive's separation from service or, if earlier, the date of Executive's death following such separation from service. All such amounts that would, but for this Section 5.02(e), become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

3. A new Section 9.09 is added to the Executive Employment Agreement to read as follows:

9.09 Compliance with Section 409A. Marchex intends that income provided to Executive pursuant to this Agreement will not be subject to taxation under Section 409A. The provisions of this Agreement shall be interpreted and construed in favor of satisfying any applicable requirements of Section 409A. However, Marchex does not guarantee any particular tax effect for income provided to Executive pursuant to this Agreement. In any event, except for the responsibility of Marchex to withhold applicable income and employment taxes from compensation paid or provided to Executive, Marchex shall not be responsible for the payment of any applicable taxes incurred by Executive on compensation paid or provided to Executive pursuant to this Agreement.

4. Except as set forth herein, all other terms and conditions of the Executive Employment Agreement will remain in full force and effect.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment as a sealed instrument as of the day and year first above written.

MARCHEX, INC.

By: /S/ RUSSELL C. HOROWITZ
Name: Russell C. Horowitz
Title: Chief Executive Officer

EXECUTIVE:

/S/ MICHAEL A. ARENDS
Name: Michael A. Arends

Exhibit 10.17

REVISED FORM OF EXECUTIVE RESTRICTED STOCK AGREEMENT

This Revised Form of Executive Restricted Stock Agreement (the "Agreement") is entered into this 8th day of May, 2009 between Marchex, Inc., a Delaware corporation (the "Company") and (the "Participant").

WITNESSETH:

WHEREAS, the Compensation Committee of the Company has agreed to grant to the Participant, shares of the Company's Class B common stock, par value $0.01 per share (the "Shares" or "Common Stock") in accordance with the terms and conditions of the Company's 2003 Amended and Restated Stock Incentive Plan (the "Plan"); and

WHEREAS, the Shares are subject to certain restrictions; and

WHEREAS, a condition to the grant of the Shares to the Participant is that the Participant execute this Agreement.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Grant of Shares. Subject to the terms, conditions and restrictions of the Plan and this Agreement, the Company hereby awards to the Participant, Shares on May 8, 2009 (the "Grant Date"). To the extent required by law, the Participant shall pay the Company the par value ($0.01) (the "Purchase Price") for each Share awarded to the Participant simultaneously with the execution of this Agreement in cash or cash equivalents payable to the order of the Company. Pursuant to the Plan and Section 4 of this Agreement, the Shares are subject to certain restrictions, which restrictions shall expire in accordance with the provisions of the Plan and Section 4 hereof. While such restrictions are in effect, the Shares subject to such restrictions shall be referred to herein as "Restricted Stock", and Shares as to which such restrictions have expired shall be referred to herein as "Vested Shares."

2. Right to Repurchase Upon Termination of Employment Relationship. In the event Participant's employment relationship with the Company terminates, for any reason whatsoever, whether due to voluntary or involuntary action, death, disability or otherwise, the Company shall have the right to repurchase at the original price paid therefor all or any portion of the Restricted Stock, which right may be exercised at any time and from time to time within ninety (90) days after the date of such termination.

3. Exercise of Right of Repurchase. The Company may exercise its right of repurchase by providing written notice to the Participant stating the number of Shares of Restricted Stock to be repurchased, the aggregate price to be paid (the "Repurchase Price") and the date (the "Repurchase Date") such repurchase shall occur (which shall be a date not fewer than ten (10) and not more than thirty (30) days from the date of such notice). On the Repurchase Date, the Company shall deliver the Repurchase Price to the Participant, by check or

wire of immediately available funds, against delivery of the certificate or certificates representing the Shares to be repurchased and duly endorsed stock powers.

4. Vesting of Shares. So long as the Participant continues to remain as an employee of the Company, the Shares will be deemed to become "Vested Shares" as follows: 25% of the total Shares shall vest on each of the first, second, third and fourth anniversaries, respectively, of the Grant Date such that the Shares shall be vested in full on the fourth anniversary of the Grant Date. One hundred percent (100%) of the Shares not already vested as of the date of a Change of Control, shall become immediately vested upon such Change of Control. For the purposes hereof, "Change of Control" shall mean the occurrence of any of the following events:

(i) an acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any "Person" or "Group" (as such terms are used for the purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) immediately after which such Person or Group has Beneficial Ownership (within the meaning of Rule l3d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the combined voting power of the Company's then-outstanding Voting Securities; provided, however, in determining whether or not a Change of Control has occurred, Voting Securities which are acquired in a "Non-Control Acquisition" (as hereinafter defined) shall not constitute an acquisition which would constitute a Change of Control. A "Non-Control Acquisition" shall mean an acquisition by (i) any employee benefit plan (or related trust) sponsored or maintained by the Company or any affiliate of the Company, (ii) the Company, (iii) any Person in connection with a Non-Control Transaction (as hereinafter defined), or (iv) any holder of the Company's Class A Common Stock as of the date hereof;

(ii) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) the consummation of:

(a) A merger, consolidation or reorganization with or into the Company or in which securities of the Company are issued, unless such merger, consolidation or reorganization is a "Non-Control Transaction". A

"Non-Control Transaction" is a merger, consolidation or reorganization with or into the Company or in which securities of the Company are issued where:

A. the shareholders of the Company immediately before such merger, consolidation, or reorganization, own, directly or indirectly, at least fifty-one percent (51%) of the combined voting power of the outstanding voting securities of the corporation resulting form such merger, consolidation or reorganization (the "Surviving Corporation") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization,

B. the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least a majority of the members of the board of directors of the Surviving Corporation or a corporation owning directly or indirectly fifty-one percent (51%) or more of the Voting Securities of the Surviving Corporation, and

C. no Person or Group, other than (i) the Company, (ii) any subsidiary of the Company, (iii) any employee benefit plan (or any trust forming a part thereof) maintained by the Company immediately prior to such merger, consolidation, or reorganization, or (iv) any holder of the Company's Class A Common Stock as of the date hereof, owns twenty percent (20%) or more of the combined voting power of the Surviving Corporation's then-outstanding voting securities; or

(b) a complete liquidation or dissolution of the Company; or

(c) the sale of disposition of all or substantially all of the assets of the Company to any Person.

Notwithstanding the foregoing, a Change of Control shall not be deemed to occur solely because any Person (the "Subject Person") acquired Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person, provided that if a Change of Control would occur (but for the operation of this sentence) and after such acquisition of Voting Securities by the Company, the Subject Person becomes the Beneficial Owner of any additional Voting Securities, then a Change of Control shall occur.

There shall be no proportionate or partial vesting in the periods prior to the applicable vesting dates and all vesting shall occur only on the appropriate vesting date. The Compensation Committee may, in its sole discretion, provide for accelerated vesting of the Restricted Stock at

any time. Fractional shares of Common Stock resulting from any vesting hereunder shall be aggregated until, and eliminated at, the time of vesting by rounding-down for fractions less than one-half and rounding-up for fractions equal to or greater than one-half. Cash settlements shall be made with respect to fractional shares of Common Stock eliminated by rounding in accordance with the Plan.

5. Transfers. No Participant shall, directly or indirectly, sell, assign, transfer, pledge, hypothecate, mortgage, encumber or dispose of (either voluntarily or by operation of law or otherwise) all or any of his Restricted Stock (or any interest therein or any option, warrant or other right with respect thereto).

6. Rights as a Holder of Restricted Stock. From and after the Grant Date, the Participant shall have, with respect to the Restricted Stock, all of the rights of a holder of shares of Common Stock, including, without limitation, the right to receive and retain all regular cash dividends payable to holders of shares of record on and after the Grant Date (although such dividends will be treated, to the extent required by applicable law, as additional compensation for tax purposes), voting rights and to exercise all other rights, powers and privileges of a holder of shares with respect to the Restricted Stock, with the exceptions that (i) the Participant shall not be entitled to delivery of the stock certificate or certificates representing the Restricted Stock until such shares are no longer Restricted Stock; and (ii) the Company (or its designated agent) will retain custody of the stock certificate or certificates representing the Restricted Stock.

7. Taxes; Section 83(b) Election. The Participant acknowledges that (i) no later than the date on which any Restricted Stock shall have become vested or upon the filing of an election under Section 83(b) as provided below, the Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding payment of, any federal, state or local taxes of any kind required by law to be withheld with respect to any Restricted Stock which shall have become so vested; and (ii) the Company shall, to the extent permitted by law, have the right to deduct from any payment of any kind otherwise due to the Participant any federal, state or local taxes of any kind required by law to be withheld with respect to any Restricted Stock which shall have become so vested or other withholding taxes that are required by law, including that the Company may, but shall not be required to, sell a number of Shares sufficient to cover applicable withholding taxes. Subject to the Participant's compliance with the Company's policy on Insider Trading (as in effect from time to time), the Participant may elect to pay the Company his or her obligations for the payment of such taxes through a special sale and remittance procedure commonly referred to as a *"cashless exercise" or "sell to cover"* transaction pursuant to which the Participant shall concurrently provide irrevocable written instructions: (i) to the Company's designated stock plan administrator to effect the immediate sale of a sufficient number of the Shares acquired upon the vesting of the Shares to enable the Company's designated stock plan administrator to remit, out of the sales proceeds available upon the settlement date, sufficient funds to the Company to cover all applicable federal, state and local income and employment taxes required to be withheld by the Company by reason of such vesting and/or sale; and (ii) to the Company to deliver any certificate(s) or other evidence of ownership for such sold Shares directly to the Company's designated stock plan administrator in order to complete the sale transaction. The Participant also acknowledges that it is his or her sole responsibility, and not the Company's, to file timely and properly any election under Section 83(b) of the Internal Revenue Code of 1986, as amended (the "Code"), and any corresponding provisions of state tax

laws, if the Participant wishes to utilize such election.

8. Legend. In the event that a certificate evidencing Restricted Stock is issued, the certificate representing the Shares shall have endorsed thereon the following legend:

"THE ANTICIPATION, ALIENATION, ATTACHMENT, SALE, TRANSFER, ASSIGNMENT, PLEDGE, ENCUMBRANCE OR CHARGE OF THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS (INCLUDING FORFEITURE) OF THE MARCHEX, INC. (THE "COMPANY") 2003 AMENDED AND RESTATED STOCK INCENTIVE PLAN (THE "PLAN") AND AN AGREEMENT ENTERED INTO BETWEEN THE REGISTERED OWNER AND THE COMPANY DATED AS OF THE 8th DAY OF MAY, 2009. COPIES OF SUCH PLAN AND AGREEMENT ARE ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY."

9. Certain Additional Payments by the Company. In the event it shall be determined at any time that as a result, directly or indirectly, of the Shares or payment or distribution by the Company to or for the benefit of the Participant in connection therewith, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), the Participant would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Participant with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Participant shall be entitled to promptly receive from the Company an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Participant of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, but excluding any income taxes on the Payment, the Participant is in the same after-tax position as if no Excise Tax had been imposed upon the Participant. The Company shall pay the Gross-Up Payment to Participant no later than the last day of Participant's taxable year following the taxable year in which Participant remits the Excise Tax.

10. Recapitalizations, Reorganizations, Changes in Control and the Like. Adjustments and certain other matters relating to recapitalizations, reorganizations, sale of the assets of the Company, changes in control and the like shall be made and determined in accordance with Section 16 of the Plan, as in effect on the date of this Agreement.

11. Failure to Deliver Shares. If the Participant becomes obligated to sell any Shares to the Company under this Agreement and fails to deliver such Shares in accordance with the terms of this Agreement, the Company may, at its option, in addition to all other remedies it may have, send to the defaulting Participant the Purchase Price for such Shares as is herein specified. Thereupon, the Company, upon written notice to the defaulting Participant, shall cancel on its books the certificate or certificates representing the Shares to be sold, and all of the defaulting Participant's rights in and to such Shares shall terminate.

12. Specific Enforcement. The Participant expressly agrees that the Company may be irreparably damaged if this Agreement is not specifically enforced. Upon a breach or threatened breach of the terms, covenants and/or conditions of this Agreement by Participant, the Company

shall, in addition to all other remedies, each be entitled to apply for a temporary or permanent injunction, and/or a decree for specific performance, in accordance with the provisions hereof.

13. No Special Employment or Other Contract Rights. Nothing contained in this Agreement shall be construed or deemed by any person under any circumstances to bind the Company to continue the employment relationship of the Participant for the period within which the Shares shall vest.

14. Attorneys-in-Fact. Each Participant hereby irrevocably appoints each person who may from time to time serve as Chief Executive Officer, Chief Financial Officer or General Counsel of the Company as his or her attorney-in-fact with specific authority to execute, acknowledge, swear to, file, and deliver all consents, elections, instruments, certificates, and other documents and to take any other action requisite to carrying out the intention and purpose of this Agreement.

15. Provisions of Plan Control. This Agreement is subject to all the terms, conditions and provisions of the Plan, including, without limitation, the amendment provisions thereof, and to such rules, regulations and interpretations relating to the Plan as may be adopted by the Compensation Committee and as may be in effect from time to time. The Plan is incorporated herein by reference. A copy of the Plan has been delivered to the Participant. If and to the extent that this Agreement conflicts or is inconsistent with the terms, conditions and provisions of the Plan, the Plan shall control, and this Agreement shall be deemed to be modified accordingly. Unless otherwise indicated, any capitalized term used but not defined herein shall have the meaning ascribed to such term in the Plan. This Agreement contains the entire understanding of the parties with respect to the subject matter hereof (other than any other documents expressly contemplated herein or in the Plan) and supersedes any prior agreements between the Company and the Participant.

16. Governing Law; Successors and Assigns. This Agreement shall be governed by the internal and substantive laws of the State of Delaware without giving effect to the conflicts of laws principles thereof and, except as otherwise provided herein, shall be binding upon the heirs, personal representatives, executors, administrators, successors and assigns of the parties. Each party hereby consents to the personal jurisdiction of the State of Delaware, acknowledges that venue is proper in any state or Federal court in the State of Delaware, agrees that any action related to this Agreement must be brought in a state or Federal court in the State of Delaware and waives any objection that may exist, now or in the future, with respect to any of the foregoing.

17. Attorney's Fees. In the event that any suit or action is instituted to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals. Except as otherwise permitted by the requirements of Section 409A of the Code, and the Treasury Regulations issued thereunder ("Section 409A"), any reimbursement to which Participant is entitled pursuant to this Section 17 shall (a) be paid no later than the last day of Participant's taxable year following the taxable year in which the expense was incurred, (b)

not be affected by the amount of expenses eligible for reimbursement in any other taxable year, and (c) not be subject to liquidation or exchange for another benefit.

18. Notices. Any notices or other communications required to be given hereunder shall be given by hand delivery or by first class mail with all fees prepaid and addressed, if to the Company, to it at its principal place of business, Attn: General Counsel, and if to Participant, to him, her or it at the address set forth in the signature page hereto.

19. Severability. If any provision of this Agreement shall be held to be illegal, invalid or unenforceable, such illegality, invalidity or unenforceability shall attach only to such provision and shall not in any manner affect or render illegal, invalid or unenforceable any other provision of this Agreement, and this Agreement shall be carried out as if any such illegal, invalid or unenforceable provision were not contained herein.

20. Captions. Captions are for convenience only and are not deemed to be part of this Agreement.

21. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

22. Compliance with Section 409A. The Company intends that income provided to Participant pursuant to this Agreement will not be subject to taxation under Section 409A. The provisions of this Agreement shall be interpreted and construed in favor of satisfying any applicable requirements of Section 409A. However, the Company does not guarantee any particular tax effect for income provided to Participant pursuant to this Agreement. In any event, except for the responsibility of the Company to withhold applicable income and employment taxes from compensation paid or provided to Participant, the Company shall not be responsible for the payment of any applicable taxes incurred by Participant on compensation paid or provided to Participant pursuant to this Agreement.

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MARCHEX, INC.

Restricted Stock Agreement

Counterpart Signature Page

IN WITNESS WHEREOF, this Agreement has been executed as an instrument under seal of the date and year first above written.

COMPANY:

MARCHEX, INC.

By: _____
Name:
Title:

PARTICIPANT:

_____
Name:
Address: _____

_____

Exhibit 10.18

FORM OF DIRECTOR RESTRICTED STOCK AGREEMENT

This Form of Director Restricted Stock Agreement (the "Agreement") is entered into this 8th day of May, 2009 between Marchex, Inc., a Delaware corporation (the "Company") and (the "Participant").

WITNESSETH:

WHEREAS, the Board of Directors of the Company has agreed to grant to the Participant, shares of the Company's Class B common stock, par value $0.01 per share (the "Shares" or "Common Stock") in accordance with the terms and conditions of the Company's 2003 Amended and Restated Stock Incentive Plan (the "Plan"); and

WHEREAS, the Shares are subject to certain restrictions; and

WHEREAS, a condition to the grant of the Shares to the Participant is that the Participant execute this Agreement.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Grant of Shares. Subject to the terms, conditions and restrictions of the Plan and this Agreement, the Company hereby awards to the Participant, Shares on May 8, 2009 (the "Grant Date"). To the extent required by law, the Participant shall pay the Company the par value ($0.01) (the "Purchase Price") for each Share awarded to the Participant simultaneously with the execution of this Agreement in cash or cash equivalents payable to the order of the Company. Pursuant to the Plan and Section 4 of this Agreement, the Shares are subject to certain restrictions, which restrictions shall expire in accordance with the provisions of the Plan and Section 4 hereof. While such restrictions are in effect, the Shares subject to such restrictions shall be referred to herein as "Restricted Stock", and Shares as to which such restrictions have expired shall be referred to herein as "Vested Shares."

2. Right to Repurchase Upon Termination of Director Relationship. In the event Participant's relationship with the Company as a director terminates, for any reason whatsoever, whether due to voluntary or involuntary action, death, disability or otherwise, the Company shall have the right to repurchase at the original price paid therefor all or any portion of the Restricted Stock, which right may be exercised at any time and from time to time within ninety (90) days after the date of such termination.

3. Exercise of Right of Repurchase. The Company may exercise its right of repurchase by providing written notice to the Participant stating the number of Shares of Restricted Stock to be repurchased, the aggregate price to be paid (the "Repurchase Price") and the date (the "Repurchase Date") such repurchase shall occur (which shall be a date not fewer than ten (10) and not more than thirty (30) days from the date of such notice). On the Repurchase Date, the Company shall deliver the Repurchase Price to the Participant, by check or

wire of immediately available funds, against delivery of the certificate or certificates representing the Shares to be repurchased and duly endorsed stock powers.

4. Vesting of Shares. So long as the Participant continues as a director of the Company, the Shares will be deemed to become "Vested Shares" as follows: one hundred percent (100%) of the Shares shall vest on the one (1) year anniversary of the Grant Date. One hundred percent (100%) of the Shares not already vested as of the date of a Change of Control, shall become immediately vested upon such Change of Control. For the purposes hereof, "Change of Control" shall mean the occurrence of any of the following events:

(i) an acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any "Person" or "Group" (as such terms are used for the purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) immediately after which such Person or Group has Beneficial Ownership (within the meaning of Rule l3d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the combined voting power of the Company's then-outstanding Voting Securities; provided, however, in determining whether or not a Change of Control has occurred, Voting Securities which are acquired in a "Non-Control Acquisition" (as hereinafter defined) shall not constitute an acquisition which would constitute a Change of Control. A "Non-Control Acquisition" shall mean an acquisition by (i) any employee benefit plan (or related trust) sponsored or maintained by the Company or any affiliate of the Company, (ii) the Company, (iii) any Person in connection with a Non-Control Transaction (as hereinafter defined), or (iv) any holder of the Company's Class A Common Stock as of the date hereof;

(ii) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) the consummation of:

(a) A merger, consolidation or reorganization with or into the Company or in which securities of the Company are issued, unless such merger, consolidation or reorganization is a "Non-Control Transaction". A

"Non-Control Transaction" is a merger, consolidation or reorganization with or into the Company or in which securities of the Company are issued where:

A. the shareholders of the Company immediately before such merger, consolidation, or reorganization, own, directly or indirectly, at least fifty-one percent (51%) of the combined voting power of the outstanding voting securities of the corporation resulting form such merger, consolidation or reorganization (the "Surviving Corporation") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization,

B. the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least a majority of the members of the board of directors of the Surviving Corporation or a corporation owning directly or indirectly fifty-one percent (51%) or more of the Voting Securities of the Surviving Corporation, and

C. no Person or Group, other than (i) the Company, (ii) any subsidiary of the Company, (iii) any employee benefit plan (or any trust forming a part thereof) maintained by the Company immediately prior to such merger, consolidation, or reorganization, or (iv) any holder of the Company's Class A Common Stock as of the date hereof, owns twenty percent (20%) or more of the combined voting power of the Surviving Corporation's then-outstanding voting securities; or

(b) a complete liquidation or dissolution of the Company; or

(c) the sale of disposition of all or substantially all of the assets of the Company to any Person.

Notwithstanding the foregoing, a Change of Control shall not be deemed to occur solely because any Person (the "Subject Person") acquired Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person, provided that if a Change of Control would occur (but for the operation of this sentence) and after such acquisition of Voting Securities by the Company, the Subject Person becomes the Beneficial Owner of any additional Voting Securities, then a Change of Control shall occur.

There shall be no proportionate or partial vesting in the periods prior to the applicable vesting dates and all vesting shall occur only on the appropriate vesting date. Fractional shares of Common Stock resulting from any vesting hereunder shall be aggregated until, and eliminated

at, the time of vesting by rounding-down for fractions less than one-half and rounding-up for fractions equal to or greater than one-half. Cash settlements shall be made with respect to fractional shares of Common Stock eliminated by rounding in accordance with the Plan.

5. Transfers. No Participant shall, directly or indirectly, sell, assign, transfer, pledge, hypothecate, mortgage, encumber or dispose of (either voluntarily or by operation of law or otherwise) all or any of his or her Restricted Stock (or any interest therein or any option, warrant or other right with respect thereto).

6. Rights as a Holder of Restricted Stock. From and after the Grant Date, the Participant shall have, with respect to the Restricted Stock, all of the rights of a holder of shares of Common Stock, including, without limitation, the right to receive and retain all regular cash dividends payable to holders of shares of record on and after the Grant Date (although such dividends will be treated, to the extent required by applicable law, as additional compensation for tax purposes), voting rights and to exercise all other rights, powers and privileges of a holder of shares with respect to the Restricted Stock, with the exceptions that (i) the Participant shall not be entitled to delivery of the stock certificate or certificates representing the Restricted Stock until such shares are no longer Restricted Stock; and (ii) the Company (or its designated agent) will retain custody of the stock certificate or certificates representing the Restricted Stock.

7. Taxes; Section 83(b) Election. The Participant acknowledges that (i) no later than the date on which any Restricted Stock shall have become vested or upon the filing of an election under Section 83(b) as provided below, the Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding payment of, any federal, state or local taxes of any kind required by law to be withheld with respect to any Restricted Stock which shall have become so vested; and (ii) the Company shall, to the extent permitted by law, have the right to deduct from any payment of any kind otherwise due to the Participant any federal, state or local taxes of any kind required by law to be withheld with respect to any Restricted Stock which shall have become so vested or other withholding taxes that are required by law, including that the Company may, but shall not be required to, sell a number of Shares sufficient to cover applicable withholding taxes. Subject to the Participant's compliance with the Company's policy on Insider Trading (as in effect from time to time), the Participant may elect to pay the Company his or her obligations for the payment of such taxes through a special sale and remittance procedure commonly referred to as a *"cashless exercise" or "sell to cover"* transaction pursuant to which the Participant shall concurrently provide irrevocable written instructions: (i) to the Company's designated stock plan administrator to effect the immediate sale of a sufficient number of the Shares acquired upon the vesting of the Shares to enable the Company's designated stock plan administrator to remit, out of the sales proceeds available upon the settlement date, sufficient funds to the Company to cover all applicable federal, state and local income and employment taxes required to be withheld by the Company by reason of such vesting and/or sale; and (ii) to the Company to deliver any certificate(s) or other evidence of ownership for such sold Shares directly to the Company's designated stock plan administrator in order to complete the sale transaction. The Participant also acknowledges that it is his or her sole responsibility, and not the Company's, to file timely and properly any election under Section 83(b) of the Internal Revenue Code of 1986, as amended, and any corresponding provisions of state tax laws, if the Participant wishes to utilize such election.

8. Legend. In the event that a certificate evidencing Restricted Stock is issued, the certificate representing the Shares shall have endorsed thereon the following legend:

"THE ANTICIPATION, ALIENATION, ATTACHMENT, SALE, TRANSFER, ASSIGNMENT, PLEDGE, ENCUMBRANCE OR CHARGE OF THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS (INCLUDING FORFEITURE) OF THE MARCHEX, INC. (THE "COMPANY") 2003 AMENDED AND RESTATED STOCK INCENTIVE PLAN (THE "PLAN") AND AN AGREEMENT ENTERED INTO BETWEEN THE REGISTERED OWNER AND THE COMPANY DATED AS OF THE 8th DAY OF MAY, 2009. COPIES OF SUCH PLAN AND AGREEMENT ARE ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY."

9. Recapitalizations, Reorganizations, Changes in Control and the Like. Adjustments and certain other matters relating to recapitalizations, reorganizations, sale of the assets of the Company, changes in control and the like shall be made and determined in accordance with Section 16 of the Plan, as in effect on the date of this Agreement.

10. Failure to Deliver Shares. If the Participant becomes obligated to sell any Shares to the Company under this Agreement and fails to deliver such Shares in accordance with the terms of this Agreement, the Company may, at its option, in addition to all other remedies it may have, send to the defaulting Participant the Purchase Price for such Shares as is herein specified. Thereupon, the Company, upon written notice to the defaulting Participant, shall cancel on its books the certificate or certificates representing the Shares to be sold, and all of the defaulting Participant's rights in and to such Shares shall terminate.

11. Specific Enforcement. The Participant expressly agrees that the Company may be irreparably damaged if this Agreement is not specifically enforced. Upon a breach or threatened breach of the terms, covenants and/or conditions of this Agreement by Participant, the Company shall, in addition to all other remedies, each be entitled to apply for a temporary or permanent injunction, and/or a decree for specific performance, in accordance with the provisions hereof.

12. No Special Relationship or Other Contract Rights. Nothing contained in this Agreement shall be construed or deemed by any person under any circumstances to bind the Company to continue the relationship of the Participant as a director for the period within which the Shares shall vest.

13. Attorneys-in-Fact. Each Participant hereby irrevocably appoints each person who may from time to time serve as Chief Executive Officer, Chief Financial Officer or General Counsel of the Company as his or her attorney-in-fact with specific authority to execute, acknowledge, swear to, file, and deliver all consents, elections, instruments, certificates, and other documents and to take any other action requisite to carrying out the intention and purpose of this Agreement.

14. Provisions of Plan Control. This Agreement is subject to all the terms, conditions and provisions of the Plan, including, without limitation, the amendment provisions thereof, and to such rules, regulations and interpretations relating to the Plan as may be adopted by the Compensation Committee and as may be in effect from time to time. The Plan is incorporated

herein by reference. A copy of the Plan has been delivered to the Participant. If and to the extent that this Agreement conflicts or is inconsistent with the terms, conditions and provisions of the Plan, the Plan shall control, and this Agreement shall be deemed to be modified accordingly. Unless otherwise indicated, any capitalized term used but not defined herein shall have the meaning ascribed to such term in the Plan. This Agreement contains the entire understanding of the parties with respect to the subject matter hereof (other than any other documents expressly contemplated herein or in the Plan) and supersedes any prior agreements between the Company and the Participant.

15. Governing Law; Successors and Assigns. This Agreement shall be governed by the internal and substantive laws of the State of Delaware without giving effect to the conflicts of laws principles thereof and, except as otherwise provided herein, shall be binding upon the heirs, personal representatives, executors, administrators, successors and assigns of the parties. Each party hereby consents to the personal jurisdiction of the State of Delaware, acknowledges that venue is proper in any state or Federal court in the State of Delaware, agrees that any action related to this Agreement must be brought in a state or Federal court in the State of Delaware and waives any objection that may exist, now or in the future, with respect to any of the foregoing.

16. Attorney's Fees. In the event that any suit or action is instituted to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

17. Notices. Any notices or other communications required to be given hereunder shall be given by hand delivery or by first class mail with all fees prepaid and addressed, if to the Company, to it at its principal place of business, Attn: General Counsel, and if to Participant, to him, her or it at the address set forth in the signature page hereto.

18. Severability. If any provision of this Agreement shall be held to be illegal, invalid or unenforceable, such illegality, invalidity or unenforceability shall attach only to such provision and shall not in any manner affect or render illegal, invalid or unenforceable any other provision of this Agreement, and this Agreement shall be carried out as if any such illegal, invalid or unenforceable provision were not contained herein.

19. Captions. Captions are for convenience only and are not deemed to be part of this Agreement.

20. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

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MARCHEX, INC.

Restricted Stock Agreement

Counterpart Signature Page

IN WITNESS WHEREOF, this Agreement has been executed as an instrument under seal of the date and year first above written.

COMPANY:

MARCHEX, INC.

By: _____
Name:
Title:

PARTICIPANT:

_____
Name:
Address: _____

_____

EXHIBIT 10.19

AMENDED AND RESTATED LEASE

520 PIKE STREET, INC.,

a Delaware corporation,

Landlord

and

Marchex, Inc.

a Delaware corporation,

Tenant

for

Suites 1700, 1800, 1900 and 2000

520 Pike Tower

Seattle, Washington

June 5, 2009

TABLE OF CONTENTS

Schedule of Exhibits

AMENDED AND RESTATED LEASE

THIS AMENDED AND RESTATED LEASE is made as of the 5th day of June, 2009, between 520 Pike Street, Inc., a Delaware corporation (**"Landlord"**), and Marchex, Inc., a Delaware corporation (**"Tenant"**).

RECITALS: Landlord and Tenant are now parties to that certain Lease dated October 2, 2006 (the "Lease"), as amended by Amendment No. 1 to Lease dated January 31, 2008 (collectively the "Lease"), whereby Landlord leased to Tenant and Tenant leased from Landlord certain premises commonly known as Suites 1700 and 1800 of the 520 Pike Tower located at 520 Pike Street in the City of Seattle, County of King, State of Washington. Landlord and Tenant desire to expand the Premises by the addition of Suite 1900 containing approximately 17,302 rentable square feet of space, the portion for the 20th floor of the Building referred to as Suite 2000 containing approximately 8,400 rentable square feet of space, and the remainder of the 20th floor of the Building referred to as Suite 2050 containing approximately 8,936 rentable square feet of space; to extend the Term by a period of approximately eight (8) years, to make certain other changes to the Lease and to set forth all of such changes in this Amended and Restated Lease. The terms and provisions of this Amended and Restated Lease shall be legally binding upon execution of this Amended and Restated Lease by both parties, but shall be effective as of January 1, 2010 (the "**Effective Date**"). The terms and provisions of the Lease, without giving effect to this Amended and Restated Lease, including without limitation, the provisions relating to the Premises, Base Rent, Additional Rent, and the Base Year, shall remain effective for all purposes as to all periods prior to the Effective Date. These Recitals form a contractual part of this Amended and Restated Lease.

Landlord and Tenant hereby agree as follows:

ARTICLE 1

BASIC LEASE PROVISIONS

PREMISES	From the Commencement Date to March 31, 2010, the Premises shall consist of the entire 18th floor of the Building ("**Suite 1800**") and Suite 1700 ("**Suite 1700**"), both as more particularly shown on **Exhibit A** attached hereto. From April 1, 2010 to March 31, 2012, the Premises shall consist of Suite 1700, Suite 1800, and Suite 1900 ("**Suite 1900**"), all as more particularly shown on **Exhibit A** attached hereto, and the portions (which need not be contiguous) of the 20th floor of the Building comprising Suite 2000 ("**Suite 2000**"), as provided in Article 31; provided that Suite 1700 shall cease to be included in the Premises upon the earlier to occur of (i) Tenant taking actual occupancy of Suite 1900 and giving notice to Landlord that Tenant has vacated Suite 1700, and (ii) the date three (3) months after the date Landlord makes Suite 1900 available to Tenant in the form and manner required under this Amended and Restated Lease (including the Work Letter) but in no event prior to the Effective Date. Landlord shall endeavor to allow Tenant access to Suite 1900 and Suite 2000 as of January 1, 2010 for purposes of constructing the Initial Installations.

	From April 1, 2012 to the Expiration Date, the Premises shall consist of Suite 1800, Suite 1900, Suite 2000, and the remaining portions (which need not be contiguous) of the 20th floor of the Building indicated on **Exhibit A** as comprising Suite 2050 ("**Suite 2050**"), all as more particularly shown on **Exhibit A** attached hereto.
BUILDING	The building, fixtures, equipment and other improvements and appurtenances now located or hereafter erected, located or placed upon the land known as the 520 Pike Tower, Seattle, Washington, as more particularly described on **Exhibit A** attached hereto.
REAL PROPERTY	The Building, together with the plot of land upon which it stands.
COMMENCEMENT DATE	January 1, 2010 as to Suite 1800 and Suite 1700. The date which is the later to occur of (a) the date ninety (90) days after Landlord tenders possession of Suite 1900 and Suite 2000 to Tenant for the purpose of constructing the Initial Installations, and (b) April 1, 2010, as to Suite 1900 and Suite 2000. April 1, 2012 as to Suite 2050.
RENT COMMENCEMENT DATE	The Commencement Date as to each of the Suites comprising the Premises from time to time. Tenant may occupy Suite 1900 and Suite 2000 upon substantial completion of the Initial Installations in such Suites, and, if Tenant does so, Tenant shall not be required to pay Fixed Rent during the period prior to April 1, 2010.
EXPIRATION DATE	March 31, 2018, or the last day of any renewal or extended term, if the Term of this Amended and Restated Lease is extended in accordance with any express provision hereof.
TERM	The period commencing on the Commencement Date as to Suite 1800 and Suite 1700 and ending on the Expiration Date.
PERMITTED USES	Executive and general offices.
BASE YEAR	Calendar year 2010.

TENANT'S PROPORTIONATE SHARE	The Proportionate Shares with respect to the various Suites comprising the Premises are as follows:

Suite 1700:	2.24%
Suite 1800:	4.62%
Suite 1900:	4.62%
Suite 2000	2.24%
Suite 2050	2.39%

Accordingly, from January 1, 2010 to March 31, 2010 Tenant's Proportionate Share shall be 6.86%; from April 1, 2010 to March 31, 2012 Tenant's Proportionate Share shall be 11.48%, and from April 1, 2012 to the Expiration Date Tenant's Proportionate Share shall be 13.87%, provided that during any period from and after April 1, 2010 that Suite 1700 is included in the Premises Tenant's Proportionate Share shall be increased by 2.24%.

AGREED AREA OF BUILDING	374,225 rentable square feet, as mutually agreed by Landlord and Tenant.
AGREED AREA OF PREMISES	17,302 rentable square feet as to Suite 1800, 8,373 rentable square feet as to Suite 1700, 17,302 rentable square feet as to Suite 1900, 8,400 rentable square feet as to Suite 2000, and 8,936 as to Suite 2050, all as mutually agreed by Landlord and Tenant.
FIXED RENT	Fixed Rent as to the Premises shall be the following amounts per month during the following periods:

During the period from January 1, 2010 to March 31, 2010, Fixed Rent as to the Premises shall be $57,768.75 per month.

During the eight (8) year period from April 1, 2010 to the Expiration Date, Fixed Rent as to the Premises shall be the following amounts per month during the following periods:

Period	Per Annum	Per Month
Months 1-3, Year 1	$ 0.00	$ 0.00
Months 4-12, Year 1	$1,161,108.00	$ 96,759.00
Year 2	$1,195,941.24	$ 99,661.77
Months 1-3, Year 3	$1,231,819.48	$102,651.62
Months 4-12, Year 3	$1,487,784.94	$123,982.08
Year 4	$1,532,418.49	$127,701.54
Year 5	$1,578,391.04	$131,532.59
Year 6	$1,625,742.78	$135,478.56
Year 7	$1,674,515.06	$139,542.92
Year 8	$1,724,750.51	$143,729.21

Notwithstanding the foregoing, during any period from and after April 1, 2010 that Suite 1700 is included in the Premises the Fixed Rent shall be increased by $18,839.25.

The term "Year" for purposes of the foregoing rent schedule only means a period of one (1) year commencing on April 1, 2010, and on each subsequent anniversary of such date during the Term.

ADDITIONAL RENT — All sums other than Fixed Rent payable by Tenant to Landlord under this Amended and Restated Lease, including Tenant's Tax Payment, Tenant's Operating Payment, late charges, overtime or excess service charges, damages, and interest and other costs related to Tenant's failure to perform any of its obligations under this Amended and Restated Lease.

RENT — Fixed Rent and Additional Rent, collectively.

INTEREST RATE — The lesser of (i) 4% per annum above the then-current Base Rate, and (ii) the maximum rate permitted by applicable Requirements.

SECURITY DEPOSIT — $143,729.21. Tenant's existing Security Deposit of $40,371.33 as to the 18th Floor and $25,872.57 as to Suite 1700 shall be credited against such Security Deposit and Tenant shall deposit the balance of such Security Deposit with Landlord upon the execution of this Amended and Restated Lease in cash.

TENANT'S ADDRESS FOR NOTICES — Marchex, Inc.
520 Pike Street, Suite 1800
Seattle, Washington 98101
Attn: General Counsel

LANDLORD'S ADDRESS FOR NOTICES	520 Pike Street, Inc. c/o Tishman Speyer Properties, L.P. 520 Pike Street, Suite 1210 Seattle, Washington 98101 Attn: Property Manager Copies to: 520 Pike Street, Inc. Tishman Speyer Properties, L.P. 45 Rockefeller Plaza New York, New York 10011 Attn: Chief Financial Officer and: 520 Pike Street, Inc. Tishman Speyer Properties, L.P. 45 Rockefeller Plaza New York, New York 10011 Attn: Chief Legal Officer
TENANT'S BROKER	Jones Lang LaSalle Americas, Inc.
LANDLORD'S AGENT	Washington Partners, Inc. and Tishman Speyer Properties, L.P. or any other person or entity designated at any time and from time to time by Landlord as Landlord's Agent.
LANDLORD'S CONTRIBUTION	$779,100.00.

All capitalized terms used in this Amended and Restated Lease without definition are defined in Exhibit B.

ARTICLE 2

PREMISES; TERM; RENT

Section 2.1 Amended and Restated Lease of Premises. Subject to the terms of this Amended and Restated Lease, Landlord leases to Tenant and Tenant leases from Landlord the Premises for the Term. In addition, Landlord grants to Tenant the right to use, on a non-exclusive basis and in common with others, the Common Areas.

Section 2.2 Commencement Date. Upon the Effective Date, the terms and provisions hereof shall be fully binding on Landlord and Tenant prior to the occurrence of the Commencement Date. The Term of this Amended and Restated Lease shall commence on the Commencement Date. Unless sooner terminated or extended as hereinafter provided, the Term shall end on the Expiration Date. If Landlord does not tender possession of the Premises to Tenant on or before the Commencement Date or any other particular date, for any reason whatsoever, Landlord shall not be liable for any damage thereby, this Amended and Restated

Lease shall not be void or voidable thereby, and the Term shall not commence until the Commencement Date. Landlord shall be deemed to have tendered possession of the relevant portion of the Premises to Tenant upon the giving of notice by Landlord to Tenant stating that such portion of the Premises is vacant, in the condition required by this Amended and Restated Lease and available for construction of Tenant's improvement and alterations. No failure to tender possession of the Premises to Tenant on or before the Commencement Date shall affect any other obligations of Tenant hereunder. There shall be no postponement of the Commencement Date (or the Rent Commencement Date) for any delay in the tender of possession to Tenant which results from any Tenant Delay. Once the Commencement Date is determined, Landlord and Tenant shall execute an agreement stating the Commencement Date, Rent Commencement Date and Expiration Date, but the failure to do so will not affect the determination of such dates.

Section 2.3 Payment of Rent. Tenant shall pay to Landlord, without notice or demand, and without any set-off, counterclaim, abatement or deduction whatsoever, except as may be expressly set forth in this Amended and Restated Lease, in lawful money of the United States by check or wire transfer of funds, (i) Fixed Rent in equal monthly installments, in advance, on the first day of each month during the Term, commencing on the Rent Commencement Date, and (ii) Additional Rent, at the times and in the manner set forth in this Amended and Restated Lease.

Section 2.4 First Month's Rent. Tenant shall pay one month's Fixed Rent as to Suites 1900 and 2000 upon the execution of this Amended and Restated Lease (**"Suites 1900 and 2000 Advance Rent"**). The Suites 1900 and 2000 Advance Rent shall be credited towards the first month's Fixed Rent payment as to Suites 1900 and 2000, after application of three months of free rent on the Premises (then consisting of Suites 1800, 1900 and 2000). If the Rent Commencement Date is not the first day of a month, then on the Rent Commencement Date Tenant shall pay Fixed Rent for the period from the Rent Commencement Date through the last day of such month, and the Advance Rent shall be credited towards Fixed Rent for the next succeeding calendar month.

Section 2.5 Unused Landlord Contribution. Tenant shall have the right to request that up to $259,700 of the Landlord Contribution, to the extent not expended for the completion of the Initial Installations, be credited towards amounts owed with respect to Fixed Rent; provided that: (i) such request shall not be made prior to the later of April 1, 2012 or the date upon which the Commencement Date for Suite 2050 occurs and shall be made within two months of such later date, (ii) such credit shall not commence until all of the Initial Installations contemplated for the Premises by the Final Plans have been completed and final payments made in accordance with Section 3 of the Work Letter and (iii) such amounts shall be applied in consecutive months until such time as the full amount of Landlord Contribution available for credit towards Fixed Rent has been so applied.

Section 2.6 Lunchroom Fee. In addition to the payment of Rent, from the Commencement Date for Suite 2000 through April 1, 2012, Tenant shall pay to Landlord, at the time for payment of Fixed Rent, one hundred dollars ($100) per month, in consideration for Tenant's access to and right to use the lunchroom located within Suite 2050 during such period. Notwithstanding the foregoing or anything to the contrary contained in this Amended and Restated Lease, Suite 2050 shall not be deemed included in the Premises until April 1, 2012.

ARTICLE 3

USE AND OCCUPANCY

Tenant shall use and occupy the Premises for the Permitted Uses and for no other purpose. Tenant shall not use or occupy or permit the use or occupancy of any part of the Premises in a manner constituting a Prohibited Use. If Tenant uses the Premises for a purpose constituting a Prohibited Use, violating any Requirement, or causing the Building to be in violation of any Requirement, then Tenant shall promptly discontinue such use upon notice of such violation. Tenant, at its expense, shall procure and at all times maintain and comply with the terms and conditions of all licenses and permits required for the lawful conduct of the Permitted Uses in the Premises.

ARTICLE 4

CONDITION OF THE PREMISES

Tenant has inspected the Premises and agrees (a) to accept possession of the various portions of the Premises in their condition existing on the date hereof "as is", and (b) that except for Landlord's Contribution Landlord has no obligation to provide any allowances, perform any work, supply any materials, incur any expense or make any alterations or improvements to prepare the Premises for Tenant's occupancy. Any work to be performed by Tenant in connection with Tenant's initial occupancy of the Premises shall be hereinafter referred to as the **"Initial Installations**,**"** and shall be Substantially Completed by Tenant within 120 days following the Commencement Date as to each of the Suites comprising the Premises. Tenant's occupancy of any part of the Premises shall be conclusive evidence, as against Tenant, that Tenant has accepted possession of the Premises in its then current condition and at the time such possession was taken, the Premises and the Building were in a good and satisfactory condition as required by this Amended and Restated Lease. The requirements and conditions for Alterations contained in Article 5 of the Lease shall not apply to the Initial Installations, and the process and requirements with respect to such Initial Installations shall be governed by the Work Letter.

ARTICLE 5

ALTERATIONS

Section 5.1 Tenant's Alterations. (a) Tenant shall not make any alterations, additions or other physical changes in or about the Premises (collectively, **"Alterations"**) other than decorative Alterations such as painting, wall coverings and floor coverings (collectively, **"Decorative Alterations"**), without Landlord's prior consent, which consent shall not be unreasonably withheld if such Alterations (i) are non-structural and do not affect any Building Systems, (ii) affect only the Premises and are not visible from outside of the Premises, (iii) do not affect the certificate of occupancy issued for the Building or the Premises, and (iv) do not violate any Requirement.

(b) Plans and Specifications. Prior to making any Alterations, Tenant, at its expense, shall (i) submit to Landlord for its approval, detailed plans and specifications (**"Plans"**) of each proposed Alteration (other than Decorative Alterations), and with respect to any Alteration affecting any Building System, evidence that the Alteration has been designed by, or reviewed and approved by, Landlord's designated engineer for the affected Building System,

(ii) obtain all permits, approvals and certificates required by any Governmental Authorities, (iii) furnish to Landlord duplicate original policies or certificates of worker's compensation (covering all persons to be employed by Tenant, and Tenant's contractors and subcontractors in connection with such Alteration), commercial general liability (including property damage coverage) and business auto insurance and Builder's Risk coverage (as described in Article 11) all in such form, with such companies, for such periods and in such amounts as Landlord may reasonably require, naming Landlord, Landlord's Agent, any Lessor and any Mortgagee as additional insureds, and (iv) furnish to Landlord reasonably satisfactory evidence of Tenant's ability to complete and to fully pay for such Alterations (other than Decorative Alterations). Landlord shall have ten (10) Business Days after receipt of the Plans within which to approve or disapprove of the Plans. If Landlord disapproves any Plans, Landlord will provide reasonably detailed grounds for such disapproval. Tenant shall give Landlord not less than 5 Business Days' notice prior to performing any Decorative Alteration, which notice shall contain a description of such Decorative Alteration.

(c) Governmental Approvals. Tenant, at its expense, shall, as and when required, promptly obtain certificates of partial and final approval of such Alterations required by any Governmental Authority and shall furnish Landlord with copies thereof, together with "as-built" Plans for such Alterations prepared on an AutoCAD Computer Assisted Drafting and Design System (or such other system or medium as Landlord may accept), using naming conventions issued by the American Institute of Architects in June, 1990 (or such other naming conventions as Landlord may accept) and computer media of such record drawings and specifications translated in DFX format or another format acceptable to Landlord.

Section 5.2 Manner and Quality of Alterations. All Alterations shall be performed (a) in a good and workmanlike manner and free from defects, (b) substantially in accordance with the Plans, and by contractors approved by Landlord, (c) in compliance with all Requirements, the terms of this Amended and Restated Lease and all construction procedures and regulations then prescribed by Landlord, and (d) at Tenant's expense. All materials and equipment shall be of first quality and at least equal to the applicable standards for the Building then established by Landlord, and no such materials or equipment (other than Tenant's Property) shall be subject to any lien or other encumbrance. Upon completion of any Alterations hereunder, Tenant shall provide Landlord with copies of all construction contracts, proof of payment for all labor and materials, and final unconditional waivers of lien from all contractors, subcontractors, materialmen, suppliers and others having lien rights with respect to such Alterations, in the form prescribed by Washington law.

Section 5.3 Removal of Tenant's Property. Tenant's Property shall remain the property of Tenant and Tenant may remove the same at any time on or before the Expiration Date. On or prior to the Expiration Date, Tenant shall, unless otherwise directed by Landlord, at Tenant's expense, remove any Tenant's Property and Specialty Alterations and close up any slab penetrations in the Premises made by Tenant (but excluding any Specialty Alterations or slab penetrations existing in the Premises as of the Commencement Date as to the various Suites comprising the Premises and not made by Tenant). Tenant shall repair and restore, in a good and workmanlike manner, any damage to the Premises or the Building caused by Tenant's removal of any Alterations or Tenant's Property or by the closing of any slab penetrations (as required above), and upon default thereof, Tenant shall reimburse Landlord for Landlord's cost of repairing and restoring such damage. Any Specialty Alterations or Tenant's Property not so removed shall be deemed abandoned and Landlord may retain or remove and dispose of same, and repair and restore any damage caused thereby, at Tenant's cost and without accountability to Tenant. All other Alterations shall become Landlord's property upon

termination of this Amended and Restated Lease. All cabling for voice and data shall remain in the Building and Premises, and Tenant shall not be liable to Landlord or any other party for any cost or expense relating to such cabling incurred after the Expiration Date.

Section 5.4 Mechanic's Liens. Tenant, at its expense, shall discharge any lien or charge recorded or filed against the Real Property in connection with any work done or claimed to have been done by or on behalf of, or materials furnished or claimed to have been furnished to, Tenant, within 30 days after Tenant's receipt of notice thereof by payment, by procuring and recording a lien release bond issued by a responsible corporate surety in an amount sufficient to satisfy statutory requirements therefor in the State of Washington or otherwise in accordance with law.

Section 5.5 Labor Relations. Tenant shall not employ, or permit the employment of, any contractor, mechanic or laborer, or permit any materials to be delivered to or used in the Building, if, in Landlord's sole judgment, such employment, delivery or use will interfere or cause any conflict with other contractors, mechanics or laborers engaged in the construction, maintenance or operation of the Building by Landlord, Tenant or others. If such interference or conflict occurs, upon Landlord's request, Tenant shall cause all contractors, mechanics or laborers causing such interference or conflict to leave the Building immediately.

Section 5.6 Tenant's Costs. Tenant shall pay to Landlord, upon demand, all out-of-pocket costs actually incurred by Landlord in connection with Tenant's Alterations, including costs incurred in connection with (a) Landlord's review of the Alterations (including review of requests for approval thereof) and (b) the provision of Building personnel during the performance of any Alteration, to operate elevators or otherwise to facilitate Tenant's Alterations. In addition, if Tenant's Alterations (excluding Decorative Alterations) cost more than $25,000, Tenant shall pay to Landlord, upon demand, an administrative fee in an amount equal to three percent (3%) of the total cost of such Alterations, excluding costs of the types identified as "soft costs" under the Work Letter. At Landlord's request, Tenant shall deliver to Landlord reasonable supporting documentation evidencing the hard and soft costs incurred by Tenant in designing and constructing any Alterations.

Section 5.7 Tenant's Equipment. Tenant shall provide notice to Landlord prior to moving any heavy machinery, heavy equipment, freight, bulky matter or fixtures (collectively, **"Equipment"**) into or out of the Building and shall pay to Landlord any costs actually incurred by Landlord in connection therewith. If such Equipment requires special handling, Tenant agrees (a) to employ only persons holding all necessary licenses to perform such work, (b) all work performed in connection therewith shall comply with all applicable Requirements and (c) such work shall be done only during hours designated by Landlord.

Section 5.8 Legal Compliance. The approval of Plans, or consent by Landlord to the making of any Alterations, does not constitute Landlord's representation that such Plans or Alterations comply with any Requirements. Landlord shall not be liable to Tenant or any other party in connection with Landlord's approval of any Plans, or Landlord's consent to Tenant's performing any Alterations. If any Alterations made by or on behalf of Tenant require Landlord to make any alterations or improvements to any part of the Building in order to comply with any Requirements, Tenant shall pay all costs and expenses incurred by Landlord in connection with such alterations or improvements.

Section 5.9 Floor Load. Tenant shall not place a load upon any floor of the Premises that exceeds 50 pounds per square foot "live load". Landlord reserves the right to reasonably

designate the position of all Equipment which Tenant wishes to place within the Premises, and to place limitations on the weight thereof.

ARTICLE 6

REPAIRS

Section 6.1 Landlord's Repair and Maintenance. Landlord shall operate, maintain and, except as provided in Section 6.2 hereof, make all necessary repairs (both structural and nonstructural) to (i) the Building Systems and (ii) the Common Areas, in conformance with standards applicable to Comparable Buildings.

Section 6.2 Tenant's Repair and Maintenance. Tenant shall promptly, at its expense and in compliance with Article 5 including, without limitation, the requirement that any repairs affecting any Building System be reviewed and approved by Landlord's designated engineer for the affected Building System, make all nonstructural repairs to the Premises and the fixtures, equipment and appurtenances therein (including all electrical, plumbing, heating, ventilation and air conditioning, sprinklers and life safety systems in and serving the Premises from the point of connection to the Building Systems) (collectively, **"Tenant Fixtures"**) as and when needed to preserve the Premises in good working order and condition, except for reasonable wear and tear and damage which is Landlord's obligation to repair pursuant to the express provisions of this Amended and Restated Lease. All damage to the Building or to any portion thereof, or to any Tenant Fixtures, requiring structural or nonstructural repair caused by or resulting from any act, omission, neglect or improper conduct of a Tenant Party or the moving of Tenant's Property or Equipment into, within or out of the Premises by a Tenant Party, shall be repaired at Tenant's expense by (i) Tenant, if the required repairs are nonstructural in nature and do not affect any Building System, or (ii) Landlord, if the required repairs are structural in nature, involve replacement of exterior window glass or affect any Building System. All Tenant repairs shall be of good quality utilizing new construction materials.

Section 6.3 Reserved Rights. Landlord reserves the right to make all changes, alterations, additions, improvements, repairs or replacements to the Building and Building Systems, including changing the arrangement or location of entrances or passageways, doors and doorways, corridors, elevators, stairs, toilets or other Common Areas (collectively, **"Work of Improvement"**), as Landlord deems necessary or desirable, and to take all materials into the Premises required for the performance of such Work of Improvement, provided that (a) the level of any Building service shall not decrease in any material respect from the level required of Landlord in this Amended and Restated Lease as a result thereof (other than temporary changes in the level of such services during the performance of any such Work of Improvement), and (b) Tenant is not deprived of access to the Premises. Landlord shall use reasonable efforts to minimize interference with Tenant's use and occupancy of the Premises during the performance of such Work of Improvement. Provided that Landlord complies with the provisions of this Lease, there shall be no Rent abatement or allowance to Tenant for a diminution of rental value, no actual or constructive eviction of Tenant, in whole or in part, no relief from any of Tenant's other obligations under this Amended and Restated Lease, and no liability on the part of Landlord by reason of inconvenience, annoyance or injury to business arising from Landlord, Tenant or others performing, or failing to perform, any Work of Improvement except as hereinafter provided. If (i) Landlord undertakes any such Work of Improvement in the Premises pursuant to this Section 6.3 which is not required by any Governmental Authority or required as a result of any act or omission of Tenant, (ii) as a direct result of such renovation or other work, the Premises or any substantial part thereof are

rendered unusable for seven (7) consecutive Business Days, and (iii) Tenant actually ceases to conduct its business therein (or in the unusable portion thereof), then the Fixed Rent which the Tenant is obligated to pay hereunder shall abate proportionately (based on the number of rentable square feet rendered unusable) for the period beginning on the first (1st) Business Day that the Premises are unusable and such abatement shall continue until use of such portion of the Premises is restored to Tenant.

ARTICLE 7

INCREASES IN TAXES AND OPERATING EXPENSES

Section 7.1 Definitions. For the purposes of this Article 7, the following terms shall have the meanings set forth below:

(a) "Assessed Valuation" shall mean the amount for which the Real Property is assessed by the County Assessor of King County, Washington for the purpose of imposition of Taxes.

(b) "Base Operating Expenses" shall mean the Operating Expenses for the Base Year.

(c) "Base Taxes" shall mean the Taxes payable for the Base Year.

(d) "Comparison Year" shall mean each calendar year commencing subsequent to the Base Year.

(e) "Operating Expenses" shall mean the aggregate of all costs and expenses paid or incurred by or on behalf of Landlord in connection with the ownership, operation, repair and maintenance of the Real Property, as such costs and expenses are allocated by Landlord in its reasonable judgment between the Building, which costs and expenses may include, without limitation, the following: (i) the rental value of Landlord's Building office, (ii) the cost of insurance premiums and related charges, including premiums for coverage with respect to terrorist acts and occurrences, and (iii) capital improvements incurred after the Base Year only if such capital improvement either (A) is reasonably intended to result in a reduction in Operating Expenses (as for example, a labor-saving improvement), provided the amount included in Operating Expenses in any Comparison Year shall not exceed an amount equal to the savings reasonably anticipated to result from the installation and operation of such improvement, and/or (B) is made during any Comparison Year in compliance with Requirements which became effective (whether through adoption, promulgation, application, interpretation by the applicable Governmental Authority or otherwise) after the date of this Amended and Restated Lease. Such capital improvements shall be amortized (with interest at the Base Rate) on a straight-line basis over such period as Landlord shall reasonably determine, and the amount included in Operating Expenses in any Comparison Year shall be equal to the annual amortized amount. Operating Expenses shall not include any Excluded Expenses. If during all or part of the Base Year or any Comparison Year, Landlord shall not furnish any particular item(s) of work or service (which would otherwise constitute an Operating Expense) to any leasable portions of the Building for any reason and the cost of such item(s) of work or service vary with the Building's occupancy level, then, for purposes of computing Operating Expenses for such period, the amount included in Operating Expenses for such period shall be increased by an amount equal to the costs and expenses that Landlord reasonably determines would have been incurred by Landlord during such period if Landlord had furnished such item(s) of work or

service to such portion of the Building; provided, however, if the result of such computation would be to have Landlord's recoveries for such items exceed the actual cost of such items, then the foregoing amount shall be reduced by such excess. If Landlord eliminates from Operating Expenses for any Comparison Year a recurring category of expenses previously included in Operating Expenses for the Base Year, Landlord may subtract such category from Operating Expenses for the Base Year commencing with such Comparison Year, and if Landlord introduces to Operating Expenses for any Comparison Year a new recurring category of expenses previously excluded from the Operating Expenses for the Base Year, Landlord shall add an appropriate entry as a category of expense to Operating Expenses for the Base Year commencing with such Comparison Year. Without limiting the generality of the foregoing, if Landlord eliminates from Operating Expenses for any Comparison Year any particular type of insurance included in Operating Expenses for the Base Year, or if Landlord reduces the level of insurance coverage during any Comparison Year from that carried during the Base Year, then Landlord may adjust the amount of any insurance premium included in Operating Expenses for the Base Year to equal that amount which Landlord reasonably estimates it would have incurred had Landlord maintained similar types and levels of insurance during the Base Year as maintained by Landlord during such Comparison Year. In determining the amount of Operating Expenses for the Base Year or any Comparison Year, if less than 95% of the Building rentable area is occupied by tenants at any time during any such Base Year or Comparison Year, Operating Expenses which vary with the Building's occupancy level shall be determined for such Base Year or Comparison Year to be an amount equal to the like expenses which would normally be expected to be incurred had such occupancy been 95% throughout the Base Year or such Comparison Year; provided, however, if the result of such computation would be to have Landlord's recoveries for such items exceed the actual cost of such items, then the foregoing amount shall be reduced by such excess. Without limiting the foregoing, in calculating the Base Operating Expenses, Landlord shall include the cost of premiums for insurance coverages with respect to terrorist acts and occurrences (collectively, "Terrorist Coverage Insurance Premiums") payable with respect to the Base Year; provided, however, thereafter Landlord may elect to reduce the Base Operating Expenses by an amount equal to the Terrorism Risk Insurance Premium Reduction (as hereinafter defined); provided, further, if the Terrorism Risk Insurance Act of 2002 (the "Terrorism Act") expires or is repealed, or the benefits intended to be provided by the Terrorism Act are no longer available to Landlord in any material respect, then commencing with the first Comparison Year in which the Terrorism Coverage Insurance Premiums are affected by such expiration, repeal or material unavailability (the "Expiration Year"), Landlord shall readjust the calculation of Base Operating Expenses to include the lesser of (i) Terrorism Coverage Insurance Premiums payable with respect to the Base Year, or (ii) the Terrorism Coverage Insurance Premiums payable with respect to the Expiration Year, without regard to the Terrorism Risk Insurance Premium Reduction. The "Terrorism Risk Insurance Premium Reduction" shall mean the amount by which the Terrorism Coverage Insurance Premiums for the Base Year exceed the Terrorism Coverage Insurance Premiums for the next succeeding Comparison Year with respect to which the benefits intended to be provided by the Terrorism Act are available to Landlord. Notwithstanding the foregoing, in no event shall Landlord recover from all tenants of the Building in any Comparison Year more than one hundred percent (100%) of the actual Operating Expenses incurred by Landlord for such Comparison Year.

(f) "Statement" shall mean a statement containing a comparison of (i) Base Taxes and the Taxes for any Comparison Year, or (ii) Base Operating Expenses and the Operating Expenses for any Comparison Year.

(g) "Taxes" shall mean (i) all real estate taxes, assessments, sewer and water rents, rates and charges and other governmental levies, impositions or charges, whether general, special, ordinary, extraordinary, foreseen or unforeseen, which may be assessed, levied or imposed upon all or any part of the Real Property, and (ii) all expenses (including reasonable attorneys' fees and disbursements and experts' and other witnesses' fees) incurred in contesting any of the foregoing or the Assessed Valuation of the Real Property (but such expenses will not be included in Base Taxes if incurred during the Base Year). Taxes shall not include (x) interest or penalties incurred by Landlord as a result of Landlord's late payment of Taxes, or (y) franchise, transfer, gift, inheritance, estate or net income taxes imposed upon Landlord. If Landlord elects to pay any assessment in annual installments, then (i) such assessment shall be deemed to have been so divided and to be payable in the maximum number of installments permitted by law, and (ii) there shall be deemed included in Taxes for each Comparison Year the installments of such assessment becoming payable during such Comparison Year, together with interest payable during such Comparison Year on such installments and on all installments thereafter becoming due as provided by law, all as if such assessment had been so divided. If at any time the methods of taxation prevailing on the Effective Date shall be altered so that in lieu of or as an addition to the whole or any part of Taxes, there shall be assessed, levied or imposed (1) a tax, assessment, levy, imposition or charge based on the income or rents received from the Real Property whether or not wholly or partially as a capital levy or otherwise, (2) a tax, assessment, levy, imposition or charge measured by or based in whole or in part upon all or any part of the Real Property and imposed upon Landlord, (3) a license fee measured by the rents, or (4) any other tax, assessment, levy, imposition, charge or license fee however described or imposed, including business improvement district impositions, then all such taxes, assessments, levies, impositions, charges or license fees or the part thereof so measured or based shall be deemed to be Taxes; provided, that Washington State business and occupation tax assessed against Landlord on rental receipts pursuant to this Amended and Restated Lease shall not be included as "Taxes" for purposes of this Section 7.1.

Section 7.2 Tenant's Tax Payment. (a) If the Taxes payable for any Comparison Year exceed the Base Taxes, Tenant shall pay to Landlord Tenant's Proportionate Share of such excess (**"Tenant's Tax Payment"**). For each Comparison Year, Landlord shall furnish to Tenant a statement setting forth Landlord's reasonable estimate of Tenant's Tax Payment for such Comparison Year (the **"Tax Estimate"**). Tenant shall pay to Landlord on the 1st day of each month during such Comparison Year an amount equal to 1/12 of the Tax Estimate for such Comparison Year. If Landlord furnishes a Tax Estimate for a Comparison Year subsequent to the commencement thereof, then (i) until the 1st day of the month following the month in which the Tax Estimate is furnished to Tenant, Tenant shall pay to Landlord on the 1st day of each month an amount equal to the monthly sum payable by Tenant to Landlord under this Section 7.2 during the last month of the preceding Comparison Year, (ii) promptly after the Tax Estimate is furnished to Tenant or together therewith, Landlord shall give notice to Tenant stating whether the installments of Tenant's Tax Estimate previously made for such Comparison Year were greater or less than the installments of Tenant's Tax Estimate to be made for such Comparison Year in accordance with the Tax Estimate, and (x) if there shall be a deficiency, Tenant shall pay the amount thereof within 20 Business Days after demand therefor, or (y) if there shall have been an overpayment, Landlord shall credit the amount thereof against subsequent payments of Rent due hereunder, and (iii) on the 1st day of the month following the month in which the Tax Estimate is furnished to Tenant, and on the 1st day of each month thereafter throughout the remainder of such Comparison Year, Tenant shall pay to Landlord an amount equal to 1/12 of the Tax Estimate. Landlord shall have the right, upon not less than 30

days prior written notice to Tenant, to reasonably adjust the Tax Estimate from time to time during any Comparison Year.

(b) As soon as reasonably practicable after Landlord has determined the Taxes for a Comparison Year, Landlord shall furnish to Tenant a Statement for such Comparison Year. If the Statement shall show that the sums paid by Tenant under Section 7.2(a) exceeded the actual amount of Tenant's Tax Payment for such Comparison Year, Landlord shall credit the amount of such excess against subsequent payments of Rent due hereunder (and/or shall refund such excess to Tenant by check to the extent the excess is greater than the rental due for the remaining term of the Amended and Restated Lease or if the Amended and Restated Lease has expired). If the Statement for such Comparison Year shall show that the sums so paid by Tenant were less than Tenant's Tax Payment for such Comparison Year, Tenant shall pay the amount of such deficiency within 20 Business Days after delivery of the Statement of Tenant.

(c) Only Landlord may institute proceedings to reduce the Assessed Valuation of the Real Property and the filings of any such proceeding by Tenant without Landlord's consent shall constitute an Event of Default. If the Taxes payable for the Base Year are reduced, the Base Taxes shall be correspondingly revised, the Additional Rent previously paid or payable on account of Tenant's Tax Payment hereunder for all Comparison Years shall be recomputed on the basis of such reduction, and Tenant shall pay to Landlord within 20 Business Days after being billed therefor, any deficiency between the amount of such Additional Rent previously computed and paid by Tenant to Landlord, and the amount due as a result of such recomputations. If Landlord receives a refund of Taxes for any Comparison Year, Landlord shall credit against subsequent payments of Rent due hereunder, an amount equal to Tenant's Proportionate Share of the refund, net of any expenses incurred by Landlord in achieving such refund, which amount shall not exceed Tenant's Tax Payment paid for such Comparison Year. Landlord shall not be obligated to file any application or institute any proceeding seeking a reduction in Taxes or the Assessed Valuation. The benefit of any exemption or abatement relating to all or any part of the Real Property shall accrue solely to the benefit of Landlord and Taxes shall be computed without taking into account any such exemption or abatement.

(d) Tenant shall be responsible for any applicable occupancy or rent tax now in effect or hereafter enacted and, if such tax is payable by Landlord, Tenant shall promptly pay such amounts to Landlord, upon Landlord's demand.

(e) Tenant shall be obligated to make Tenant's Tax Payment regardless of whether Tenant may be exempt from the payment of any Taxes as the result of any reduction, abatement or exemption from Taxes granted or agreed to by any Governmental Authority, or by reason of Tenant's diplomatic or other tax-exempt status.

Section 7.3 Tenant's Operating Payment. (a) If the Operating Expenses payable for any Comparison Year exceed the Base Operating Expenses, Tenant shall pay to Landlord Tenant's Proportionate Share of such excess (**"Tenant's Operating Payment"**). For each Comparison Year, Landlord shall furnish to Tenant a statement setting forth Landlord's reasonable estimate of Tenant's Operating Payment for such Comparison Year (the **"Expense Estimate"**). Tenant shall pay to Landlord on the 1st day of each month during such Comparison Year an amount equal to 1/12 of the Expense Estimate. If Landlord furnishes an Expense Estimate for a Comparison Year subsequent to the commencement thereof, then (i) until the 1st day of the month following the month in which the Expense Estimate is furnished to Tenant,

Tenant shall pay to Landlord on the 1st day of each month an amount equal to the monthly sum payable by Tenant to Landlord under this Section 7.3 during the last month of the preceding Comparison Year, (ii) promptly after the Expense Estimate is furnished to Tenant or together therewith, Landlord shall give notice to Tenant stating whether the installments of Tenant's Operating Payment previously made for such Comparison Year were greater or less than the installments of Tenant's Operating Payment to be made for such Comparison Year in accordance with the Expense Estimate, and (x) if there shall be a deficiency, Tenant shall pay the amount thereof within 20 Business Days after demand therefor, or (y) if there shall have been an overpayment, Landlord shall credit the amount thereof against subsequent payments of Rent due hereunder, and (iii) on the 1st day of the month following the month in which the Expense Estimate is furnished to Tenant, and on the 1st day of each month thereafter throughout the remainder of such Comparison Year, Tenant shall pay to Landlord an amount equal to 1/12 of the Expense Estimate. Landlord shall have the right, upon not less than 30 days prior written notice to Tenant, to reasonably adjust the Expense Estimate from time to time during any Comparison Year.

(b) On or before May 1st of each Comparison Year, Landlord shall furnish to Tenant a Statement for the immediately preceding Comparison Year. If the Statement shows that the sums paid by Tenant under Section 7.3(a) exceeded the actual amount of Tenant's Operating Payment for such Comparison Year, Landlord shall credit the amount of such excess against subsequent payments of Rent due hereunder (and/or shall refund such excess to Tenant by check to the extent the excess is greater than the rental due for the remaining term of the Amended and Restated Lease or if the Amended and Restated Lease has expired). If the Statement shows that the sums so paid by Tenant were less than Tenant's Operating Payment for such Comparison Year, Tenant shall pay the amount of such deficiency within 20 Business Days after delivery of the Statement to Tenant.

Section 7.4 Non-Waiver; Disputes. (a) Landlord's failure to render any Statement on a timely basis with respect to any Comparison Year shall not prejudice Landlord's right to thereafter render a Statement with respect to such Comparison Year or any subsequent Comparison Year, nor shall the rendering of a Statement prejudice Landlord's right to thereafter render a corrected Statement for that Comparison Year.

(b) Each Statement sent to Tenant shall be conclusively binding upon Tenant unless Tenant (i) pays to Landlord when due the amount set forth in such Statement, without prejudice to Tenant's right to dispute such Statement, and (ii) within 120 days after such Statement is sent, sends a notice to Landlord objecting to such Statement and specifying the reasons therefor, in which case Tenant and its accountants shall have the right to review Landlord's books and records applicable to such Statement. With respect to each Statement, Landlord will maintain its applicable books and records for a period of at least three (3) years after such Statement is delivered to Tenant and thereafter during the pendency of any review thereof by Tenant pursuant to the terms of this Lease. Tenant agrees that Tenant will not employ, in connection with any dispute under this Amended and Restated Lease, any person or entity who is to be compensated, in whole or in part, on a contingency fee basis. If the parties are unable to resolve any dispute as to the correctness of such Statement within 30 days following such notice of objection, either party may refer the issues raised to one of the nationally recognized public accounting firms selected by Landlord and reasonably acceptable to Tenant, and the decision of such accountants shall be conclusively binding upon Landlord and Tenant. In connection therewith, Tenant and such accountants shall execute and deliver to Landlord a confidentiality agreement, in form and substance reasonably satisfactory to Landlord, whereby such parties agree not to disclose to any third party any of the information

obtained in connection with such review. Tenant shall pay the fees and expenses relating to such procedure, unless such accountants determine that Landlord overstated Operating Expenses by more than 3% for such Comparison Year, in which case Landlord shall pay such fees and expenses. Except as provided in this Section 7.4, Tenant shall have no right whatsoever to dispute, by judicial proceeding or otherwise, the accuracy of any Statement.

(c) In addition, if the accounting firm selected by Landlord and Tenant as set forth above concludes that Landlord has overstated any item or items of Operating Expenses and/or Taxes for such year in excess of three percent (3%), Tenant may, within one hundred-eighty (180) days following receipt of such firm's written report, review Landlord's books and records for the two (2) prior years whether or not theretofore reviewed, solely to determine whether any such item or items have also been overstated in any of such two (2) prior years. All such review activities shall also be subject to the confidentiality agreement described above.

Section 7.5 Proration. If the Rent Commencement Date is not January 1, and provided that the Rent Commencement Date does not occur in the Base Year, Tenant's Tax Payment and Tenant's Operating Payment for the Comparison Year in which the Rent Commencement Date occurs shall be apportioned on the basis of the number of days in the year from the Rent Commencement Date to the following December 31. If the Expiration Date occurs on a date other than December 31st, Tenant's Tax Payment and Tenant's Operating Payment for the Comparison Year in which such Expiration Date occurs shall be apportioned on the basis of the number of days in the period from January 1st to the Expiration Date. Upon the expiration or earlier termination of this Amended and Restated Lease, any Additional Rent under this Article 7 shall be adjusted or paid within 30 days after submission of the Statement for the last Comparison Year. Landlord shall have the right, from time to time, to equitably allocate some or all of the Taxes and/or Operating Expenses for the Real Property among different portions or occupants of the Real Property (the "Cost Pools"), in Landlord's reasonable discretion. Such Cost Pools may include, but shall not be limited to, the office space tenants of the Real Property and the retail space tenants of the Real Property. The Taxes and/or Operating Expenses allocable to each such Cost Pool shall be allocated to such Cost Pool and charged to the tenants within such Cost Pool in an equitable manner.

Section 7.6 No Reduction in Rent. In no event shall any decrease in Operating Expenses or Taxes in any Comparison Year below the Base Operating Expenses or Base Taxes, as the case may be, result in a reduction in the Fixed Rent or any component of Additional Rent payable hereunder.

ARTICLE 8

REQUIREMENTS OF LAW

Section 8.1 Compliance with Requirements.

(a) Tenant's Compliance. Tenant, at its expense, shall comply with all Requirements applicable to the Premises and/or Tenant's use or occupancy thereof; provided, however, that Tenant shall not be obligated to comply with any Requirements requiring any structural alterations to the Building unless the application of such Requirements arises from (i) the specific manner and/or nature of Tenant's use or occupancy of the Premises, as distinct from general office use, (ii) Alterations made by Tenant, or (iii) a breach by Tenant of any provisions of this Amended and Restated Lease. Any repairs or alterations required for compliance with applicable Requirements shall be made at Tenant's expense (1) by Tenant in

compliance with Article 5 if such repairs or alterations are nonstructural and do not affect any Building System, and to the extent such repairs or alterations do not affect areas outside the Premises, or (2) by Landlord if such repairs or alterations are structural or affect any Building System, or to the extent such repairs or alterations affect areas outside the Premises. If Tenant obtains knowledge of any failure to comply with any Requirements applicable to the Premises, Tenant shall give Landlord prompt notice thereof.

(b) Hazardous Materials. Tenant shall not cause or permit (i) any Hazardous Materials to be brought into the Building, (ii) the storage or use of Hazardous Materials in or about the Building or Premises (subject to the second sentence of this Section 8.1(b)), or (iii) the escape, disposal or release of any Hazardous Materials within or in the vicinity of the Building. Nothing herein shall be deemed to prevent Tenant's use of any Hazardous Materials customarily used in the ordinary course of office work, provided such use is in accordance with all Requirements. Tenant shall be responsible, at its expense, for all matters directly or indirectly based on, or arising or resulting from the presence of Hazardous Materials in the Building which is caused or permitted by a Tenant Party. Tenant shall provide to Landlord copies of all communications received by Tenant with respect to any Requirements relating to Hazardous Materials, and/or any claims made in connection therewith. Landlord or its agents may perform environmental inspections of the Premises at any time.

(c) Landlord's Compliance. Landlord shall comply with (or cause to be complied with) all Requirements applicable to the Building which are not the obligation of Tenant, to the extent that non-compliance would materially impair Tenant's use and occupancy of the Premises for the Permitted Uses.

(d) Landlord's Insurance. Tenant shall not cause or permit any action or condition that would (i) invalidate or conflict with Landlord's insurance policies, (ii) violate applicable rules, regulations and guidelines of the Fire Department, Fire Insurance Rating Organization or any other authority having jurisdiction over the Building, (iii) cause an increase in the premiums of insurance for the Building over that payable with respect to Comparable Buildings, or (iv) result in Landlord's insurance companies' refusing to insure the Building or any property therein in amounts and against risks as reasonably determined by Landlord. If insurance premiums increase as a result of Tenant's failure to comply with the provisions of this Section 8.1, Tenant shall promptly cure such failure and shall reimburse Landlord for the increased insurance premiums paid by Landlord as a result of such failure by Tenant.

Section 8.2 Fire and Life Safety. Landlord shall maintain in good order and repair the sprinkler, fire-alarm and life-safety system in the Premises. If the Fire Insurance Rating Organization or any Governmental Authority or any of Landlord's insurers requires or recommends any modifications and/or alterations be made or any additional equipment be supplied in connection with the sprinkler system or fire alarm and life-safety system serving the Building by reason of Tenant's business, any Alterations performed by Tenant or the location of the partitions, Tenant's Property, or other contents of the Premises, Landlord shall make such modifications and/or Alterations, and supply such additional equipment, at Tenant's expense.

ARTICLE 9

SUBORDINATION

Section 9.1 Subordination and Attornment. (a) This Amended and Restated Lease is subject and subordinate to all Mortgages and Superior Leases, and, at the request of

any Mortgagee or Lessor, Tenant shall attorn to such Mortgagee or Lessor, its successors in interest or any purchaser in a foreclosure sale.

(b) If a Lessor or Mortgagee or any other person or entity shall succeed to the rights of Landlord under this Amended and Restated Lease, whether through possession or foreclosure action or the delivery of a new lease or deed, then at the request of the successor landlord and upon such successor landlord's written agreement to accept Tenant's attornment and to recognize Tenant's interest under this Amended and Restated Lease, Tenant shall be deemed to have attorned to and recognized such successor landlord as Landlord under this Amended and Restated Lease. The provisions of this Section 9.1 are self-operative and require no further instruments to give effect hereto; provided, however, that Tenant shall promptly execute and deliver any instrument that such successor landlord may reasonably request (i) evidencing such attornment, (ii) setting forth the terms and conditions of Tenant's tenancy, and (iii) containing such other terms and conditions as may be reasonably required by such Mortgagee or Lessor, provided such terms and conditions do not increase the Rent, increase any of Tenant's other obligations under this Amended and Restated Lease or adversely affect any of Tenant's rights under this Amended and Restated Lease. Upon such attornment this Amended and Restated Lease shall continue in full force and effect as a direct lease between such successor landlord and Tenant upon all of the terms, conditions and covenants set forth in this Amended and Restated Lease except that such successor landlord shall not be

(i) liable for any act or omission of Landlord (except to the extent such act or omission continues beyond the date when such successor landlord succeeds to Landlord's interest and Tenant gives notice of such act or omission);

(ii) bound by any prepayment of more than one month's Rent to any prior landlord; or

(iii) liable for the repayment of any security deposit or surrender of any letter of credit, unless and until such security deposit actually is paid or such letter of credit is actually delivered to such successor landlord.

(c) Tenant shall from time to time within 10 days of request from Landlord execute and deliver any documents or instruments that may be reasonably required by any Mortgagee or Lessor to confirm any subordination; provided, however, that any obligation of Tenant to enter into any written subordination agreement in favor of a Mortgagee or Lessor with respect to this Amended and Restated Lease shall be subject to the written agreement of the Mortgagee or Lessor to not disturb Tenant's right of possession of the Premises and other rights hereunder upon a foreclosure of the subject Mortgage or upon the taking of any action under a Superior Lease such that the Lessor shall succeed to the rights of Landlord under this Amended and Restated Lease.

Section 9.2 Mortgage or Superior Lease Defaults. Any Mortgagee may elect that this Amended and Restated Lease shall have priority over the Mortgage and, upon notification to Tenant by such Mortgagee, this Amended and Restated Lease shall be deemed to have priority over such Mortgage, regardless of the date of this Amended and Restated Lease.

Section 9.3 Tenant's Termination Right. As long as any Superior Lease or Mortgage exists, Tenant shall not seek to terminate this Amended and Restated Lease by reason of any act or omission of Landlord until (a) Tenant shall have given notice of such act or omission to all Lessors and/or Mortgagees, and (b) a reasonable period of time shall have

elapsed following the giving of notice of such default and the expiration of any applicable notice or grace periods (unless such act or omission is not capable of being remedied within a reasonable period of time), but in all events not to exceed one hundred eighty (180) days, during which period such Lessors and/or Mortgagees shall have the right, but not the obligation, to remedy such act or omission and thereafter diligently proceed to so remedy such act or omission. If any Lessor or Mortgagee elects to remedy such act or omission of Landlord, Tenant shall not seek to terminate this Amended and Restated Lease so long as such Lessor or Mortgagee is proceeding with reasonable diligence to effect such remedy.

Section 9.4 Provisions. The provisions of this Article 9 shall (a) inure to the benefit of Landlord, any future owner of the Building or the Real Property, Lessor or Mortgagee and any sublessor thereof and (b) apply notwithstanding that, as a matter of law, this Amended and Restated Lease may terminate upon the termination of any such Superior Lease or Mortgage.

Section 9.5 Future Condominium Declaration. This Amended and Restated Lease and Tenant's rights hereunder are and will be subject and subordinate to any condominium declaration, by-laws and other instruments (collectively, the **"Declaration"**) which may be recorded in order to permit a condominium form of ownership of the Building pursuant to the Washington Condominium Act, RCW 64.34.005-950, or any successor Requirement, provided that the Declaration does not increase the Rent, increase any of Tenant's other obligations under this Amended and Restated Lease or adversely affect any of Tenant's rights under this Amended and Restated Lease. At Landlord's request, and subject to the foregoing proviso, Tenant will execute and deliver to Landlord an amendment of this Amended and Restated Lease confirming such subordination and modifying this Amended and Restated Lease to conform to such condominium regime.

ARTICLE 10

SERVICES

Section 10.1 Electricity. Subject to any Requirements or any public utility rules or regulations governing energy consumption, Landlord shall make or cause to be made, customary arrangements with utility companies and/or public service companies to furnish electric current to the Premises for Tenant's use in accordance with the Design Standards. If Landlord reasonably determines by the use of an electrical consumption survey or by other reasonable means that Tenant is using electric current (including overhead fluorescent fixtures) in excess of .60 kilowatt hours per square foot of usable area in the Premises per month, as determined on an annualized basis (**"Excess Electrical Usage"**), then Landlord shall have the right to charge Tenant an amount equal to Landlord's reasonable estimate of Tenant's Excess Electrical Usage, and shall have the further right to install an electric current meter, sub-meter or check meter in the Premises (a **"Meter"**) to measure the amount of electric current consumed in the Premises. The cost of such Meter, special conduits, wiring and panels needed in connection therewith and the installation, maintenance and repair thereof shall be paid by Tenant. Tenant shall pay to Landlord, from time to time, but no more frequently than monthly, for its Excess Electrical Usage at the Premises, plus Landlord's charge equal to 15% of Tenant's Excess Electrical Usage for Landlord's costs of maintaining, repairing and reading such Meter. The rate to be paid by Tenant for submetered electricity shall include any taxes or other charges in connection therewith.

Section 10.2 Excess Electricity. Tenant shall at all times comply with the rules and regulations of the utility company supplying electricity to the Building. Tenant shall not use any

electrical equipment which, in Landlord's reasonable judgment, would exceed the capacity of the electrical equipment serving the Premises. If Landlord determines that Tenant's electrical requirements necessitate installation of any additional risers, feeders or other electrical distribution equipment (collectively, **"Electrical Equipment"**), or if Tenant provides Landlord with evidence reasonably satisfactory to Landlord of Tenant's need for excess electricity and requests that additional Electrical Equipment be installed, Landlord shall, at Tenant's expense, install such additional Electrical Equipment, provided that Landlord, in its sole judgment, determines that (a) such installation is practicable and necessary, (b) such additional Electrical Equipment is permissible under applicable Requirements, and (c) the installation of such Electrical Equipment will not cause permanent damage to the Building or the Premises, cause or create a hazardous condition, entail excessive or unreasonable alterations, interfere with or limit electrical usage by other tenants or occupants of the Building or exceed the limits of the switchgear or other facilities serving the Building, or require power in excess of that available from the utility company serving the Building.

Section 10.3 Elevators. Landlord shall provide passenger elevator service to the Premises 24 hours per day, 7 days per week; provided, however, Landlord may limit passenger elevator service during times other than Ordinary Business Hours. Landlord shall provide at least one freight elevator serving the Premises, available upon Tenant's prior request, on a non-exclusive "first come, first serve" basis with other Building tenants, on all Business Days from 8:00 a.m. to 5:00 p.m., excluding Tuesdays from 1:00 pm to 3:00 pm, which hours of operation are subject to change.

Section 10.4 Heating. Ventilation and Air Conditioning. Landlord shall furnish to the Premises heating, ventilation and air-conditioning (**"HVAC"**) in accordance with the Design Standards set forth in **Exhibit D** during Ordinary Business Hours. Landlord shall have access to all air-cooling, fan, ventilating and machine rooms and electrical closets and all other mechanical installations of Landlord (collectively, **"Mechanical Installations"**), and Tenant shall not construct partitions or other obstructions which may interfere with Landlord's access thereto or the moving of Landlord's equipment to and from the Mechanical Installations. No Tenant Party shall at any time enter the Mechanical Installations or tamper with, adjust, or otherwise affect such Mechanical Installations. Landlord shall not be responsible if the HVAC System fails to provide cooled or heated air, as the case may be, to the Premises in accordance with the Design Standards by reason of (i) any equipment installed by, for or on behalf of Tenant, which has an electrical load in excess of the average electrical load and human occupancy factors for the HVAC System as designed, or (ii) any rearrangement of partitioning or other Alterations made or performed by, for or on behalf of Tenant. Tenant shall install, if missing, blinds or shades on all windows, which blinds and shades shall be subject to Landlord's approval, and shall keep operable windows in the Premises closed, and lower the blinds when necessary because of the sun's position, whenever the HVAC System is in operation or as and when required by any Requirement. Tenant shall cooperate with Landlord and shall abide by the rules and regulations which Landlord may reasonably prescribe for the proper functioning and protection of the HVAC System. Tenant acknowledges that the server room in the Premises currently has three heat pumps installed, being two 4-ton units, and one 2.5-ton unit (the **"Existing Heat Pumps"**). The 2.5-ton unit is currently connected and operational. Tenant shall determine whether it is satisfied with the condition of the Existing Heat Pumps and Landlord shall not have any responsibility or liability for the condition, operation, maintenance, repair or replacement of the Existing Heat Pumps. Tenant may operate the Existing Heat Pumps. Tenant shall be responsible for, and pay directly for, all necessary maintenance and repairs to the Existing Heat Pumps. Tenant shall reimburse Landlord monthly for the cost of all utility services used to operate the Existing Heat Pumps within 10 Business

Days after receipt of Landlord's invoice for such amount. Landlord may measure Tenant's usage of such utility services by either a sub-meter or by other reasonable methods such as by temporary check meters or by survey. Tenant, at its cost, may replace the Existing Heat Pumps with one or more new heat pumps, provided, however, that the capacity of such replacement heat pump(s) shall not exceed the 10.5-ton capacity cooling capacity of the Existing Heat Pumps.

Section 10.5 Overtime Freight Elevators and HVAC. The Fixed Rent does not include any charge to Tenant for the furnishing of any freight elevator service or HVAC to the Premises during any periods other than as set forth in Section 10.3 and Section 10.4 (**"Overtime Periods"**). If Tenant desires any such services during Overtime Periods, Tenant shall deliver notice to the Building office requesting such services at least 24 hours prior to the time Tenant requests such services to be provided; provided, however, that Landlord shall use reasonable efforts to arrange such service on such shorter notice as Tenant shall provide. On a single weekend during which Tenant initially moves into the Premises for the conduct of its business, upon 5 days' prior notice from Tenant to Landlord, Landlord shall make available to Tenant freight elevator service in accordance with Landlord's then current rules and regulations applicable thereto from 8:00 p.m. on the "move-in" Friday until 7:00 p.m. on Sunday at no cost to Tenant. If Landlord furnishes freight elevator or HVAC service during Overtime Periods, Tenant shall pay to Landlord the cost thereof at the then established rates for such services in the Building.

Section 10.6 Cleaning. Landlord shall cause the Premises (excluding any portions thereof used for the storage, preparation, service or consumption of food or beverages, as an exhibition area or classroom, for storage, as a shipping room, mail room or similar purposes, for private bathrooms, showers or exercise facilities, as a trading floor, or primarily for operation of computer, data processing, reproduction, duplicating or similar equipment) to be cleaned, substantially in accordance with the standards set forth in **Exhibit E**. Any areas of the Premises which Landlord is not required to clean hereunder or which require additional cleaning shall be cleaned, at Tenant's expense, by Landlord's cleaning contractor, at rates which shall be competitive with rates of other cleaning contractors providing comparable services to Comparable Buildings. Landlord's cleaning contractor and its employees shall have access to the Premises at all times except between 8:00 a.m. and 5:30 p.m. on weekdays which are not Observed Holidays.

Section 10.7 Water. Landlord shall provide water in the core lavatories and existing kitchens on each floor of the Building. If Tenant requires water for any additional purposes, Tenant shall pay for the cost of bringing water to the Premises and Landlord may install a meter to measure the water. Tenant shall pay the cost of such installation, and for all maintenance, repairs and replacements thereto, and for the reasonable charges of Landlord for the water consumed.

Section 10.8 Refuse Removal. Landlord shall provide refuse removal services at the Building for ordinary office refuse and rubbish. Tenant shall pay to Landlord, Landlord's reasonable charge for such removal to the extent that the refuse generated by Tenant exceeds the refuse customarily generated by general office tenants. Tenant shall not dispose of any refuse in the Common Areas, and if Tenant does so, Tenant shall be liable for Landlord's reasonable charge for such removal.

Section 10.9 Directory. The lobby shall contain a directory wherein the Building's tenants shall be listed. Tenant shall be entitled to a proportionate share of such listings, based on the rentable square footage of the Premises.

Section 10.10 Telecommunications. If Tenant requests that Landlord grant access to the Building to a telecommunications service provider designated by Tenant for purposes of providing telecommunications services to Tenant, Landlord shall use its good faith efforts to respond to such request within 10 days. Tenant acknowledges that nothing set forth in this Section 10.10 shall impose any affirmative obligation on Landlord to grant such request and that Landlord, in its sole discretion, shall have the right to determine which telecommunications service providers shall have access to Building facilities.

Section 10.11 Service Interruptions. Landlord reserves the right to suspend any service when necessary, by reason of Unavoidable Delays, accidents or emergencies, or for any Work of Improvement which, in Landlord's reasonable judgment, is necessary or appropriate, until such Unavoidable Delay, accident or emergency shall cease or such Work of Improvement is completed and Landlord shall not be liable for any interruption, curtailment or failure to supply services. Landlord shall use reasonable efforts to minimize interference with Tenant's use and occupancy of the Premises as a result of any such interruption, curtailment or failure of or defect in such service, or change in the supply, character and/or quantity of, electrical service, and to restore any such services, remedy such situation and minimize any interference with Tenant's business. The exercise of any such right or the occurrence of any such failure by Landlord shall not constitute an actual or constructive eviction, in whole or in part, entitle Tenant to any compensation, abatement or diminution of Rent, relieve Tenant from any of its obligations under this Amended and Restated Lease, or impose any liability upon Landlord or any Indemnified Party by reason of inconvenience to Tenant, or interruption of Tenant's business, or otherwise. Landlord shall not be liable in any way to Tenant for any failure, defect or interruption of, or change in the supply, character and/or quantity of, electric service furnished to the Premises for any reason except if attributable to the gross negligence or willful misconduct of Landlord. Notwithstanding the foregoing and any other provision of this Lease to the contrary (other than in the event of a casualty or a Taking, for which the provisions of Articles 11 and 12 of this Lease shall govern), if (i) any services to the Premises or any utilities to the Premises are interrupted due to a cause within Landlord's reasonable control, or Tenant's ability to use and occupy part or all of the Premises is impaired due to the foregoing activities of Landlord, its agents, employees or contractors, in the performance of any such Work of Improvement, (ii) Tenant is unable to, and does not, use such part or all of the Premises as a result of such interruption or impairment, (iii) Tenant shall have given notice respecting such interruption or impairment to Landlord, and (iv) Landlord shall have failed to cure such interruption or impairment within five (5) consecutive days after receiving such notice, then Rent hereunder as to such part or all of the Premises shall thereafter be abated beginning on the first (1st) day of such interruption or impairment until such time as such interruption is restored or such impairment shall cease, or Tenant begins using such part or all of the Premises again, whichever shall first occur. Such abatement of Rent shall be Tenant's sole recourse in the event of such interruption or impairment. In the event of a casualty or a Taking, the applicable provisions of this Lease shall prevail over the provisions of this Section 10.11.

Section 10.12 Level of Service. Landlord shall manage or cause the Building to be managed in a manner substantially consistent with the manner in which Comparable Buildings are managed and Landlord will endeavor to maintain Operating Expenses at a level that is reasonably commensurate with those of Comparable Buildings, but with due consideration

being given to whether the services that Landlord provides from time to time are in excess of, or less than, those normally provided by the landlords of Comparable Buildings.

Section 10.13 No Double Charges. Notwithstanding anything herein to the contrary, in no event shall Tenant be required to pay more than once for any charge permitted to be charged to Tenant under this Lease, or for Tenant's Proportionate Share thereof, as the case may be. In addition, in the event that more than one tenant of the Building requires additional services simultaneously with those provided to Tenant (e.g. HVAC to a shared office floor), the charges for such services shall be equitably apportioned between such tenant and Tenant.

ARTICLE 11

INSURANCE; PROPERTY LOSS OR DAMAGE

Section 11.1 Tenant's Insurance. (a) Tenant, at its expense, shall obtain and keep in full force and effect during the Term:

(i) a policy of commercial general liability insurance on an occurrence basis against claims for personal injury, bodily injury, death and/or property damage occurring in or about the Building, under which Tenant is named as the insured and Landlord, Landlord's Agent and any Lessors and any Mortgagees whose names have been furnished to Tenant are named as additional insureds (the **"Insured Parties"**). Such insurance shall provide primary coverage without contribution from any other insurance carried by or for the benefit of the Insured Parties, and Tenant shall obtain blanket broad-form contractual liability coverage to insure its indemnity obligations set forth in Article 25. The minimum limits of liability applying exclusively to the Premises shall be a combined single limit with respect to each occurrence in an amount of not less than $5,000,000; provided, however, that Landlord shall retain the right to require Tenant to increase such coverage from time to time to that amount of insurance which in Landlord's reasonable judgment is then being customarily required by landlords for similar office space in Comparable Buildings. The self insured retention for such policy shall not exceed $10,000. Tenant may satisfy the limits of liability required herein with a combination of umbrella and/or excess policies of insurance, provided that such policies comply with all of the provisions hereof (including, without limitation, with respect to scope of coverage and naming of the Insured Parties);

(ii) insurance against loss or damage by fire, and such other risks and hazards as are insurable under then available standard forms of "Special Form Causes of Loss" or "All Risk" property insurance policies, insuring Tenant's Property and all Alterations and improvements to the Premises (including the initial installations) to the extent such Alterations and improvements exceed the cost of the improvements typically performed in connection with the initial occupancy of tenants in the Building (**"Building Standard Installations"**), for the full insurable value thereof or replacement cost thereof, having a deductible amount, if any, not in excess of $25,000;

(iii) during the performance of any Alteration, until completion thereof, Builder's Risk insurance on an "all risk" basis and on a completed value form including a Permission to Complete and Occupy endorsement, for full replacement value covering the interest of Landlord and Tenant (and their respective contractors and subcontractors) in all work incorporated in the Building and all materials and equipment in or about the Premises to the extent such Alteration activities are not covered by Tenant's then-existing property insurance policies;

(iv) Workers' Compensation Insurance, as required by law;

(v) Business Interruption Insurance covering a minimum of one year of anticipated gross income;

(vi) if the Building or Real Property includes a parking garage or surface parking lot that is utilized by Tenant, Commercial Automobile Liability Insurance for any owned, non-owned or hired vehicles with a combined single limit with respect to each occurrence in an amount of not less than $1,000,000; and

(vii) such other insurance in such amounts as the Insured Parties may reasonably require from time to time.

(b) All insurance required to be carried by Tenant (i) shall contain a provision that (x) no act or omission of Tenant shall affect or limit the obligation of the insurance company to pay the amount of any loss sustained, and (y) shall be noncancellable and/or no material change in coverage shall be made thereto unless the Insured Parties receive 30 days' prior notice of the same, by certified mail, return receipt requested (except that 10 days' notice shall be sufficient in the case of cancelation for nonpayment of premiums), and (ii) shall be effected under valid and enforceable policies issued by reputable insurers admitted to do business in the State of Washington and rated in Best's Insurance Guide, or any successor thereto as having a "Best's Rating" of "A-" or better and a "Financial Size Category" of at least "X" or better, or, if such ratings are not then in effect, the equivalent thereof or such other financial rating as Landlord may at any time consider appropriate.

(c) On or prior to the Commencement Date, Tenant shall deliver to Landlord appropriate policies of insurance required to be carried pursuant to this Article 11, including evidence of waivers of subrogation and that the Insured Parties are named as additional insureds (the **"Policies"**). Evidence of each renewal or replacement of the Policies shall be delivered by Tenant to Landlord at least 10 days prior to the expiration of the Policies. In lieu of the Policies, Tenant may deliver to Landlord a certification from Tenant's insurance company, on the form currently designated "Acord 27" (Evidence of Property Insurance) and "Acord 25-S" (Certificate of Liability Insurance), or the equivalent, provided that attached thereto is an endorsement to Tenant's commercial general liability policy naming the Insured Parties as additional insureds, which endorsement is at least as broad as ISO policy form "CG 20 11 Additional Insured – Managers or Lessors of Premises" (pre-1999 edition) and which endorsement expressly provides coverage for the negligence of the additional insureds, which certification shall be binding on Tenant's insurance company, and which shall expressly provide that such certification (i) conveys to the Insured Parties all the rights and privileges afforded under the Policies as primary insurance, and (ii) contains an unconditional obligation of the insurance company to advise all Insured Parties in writing by certified mail, return receipt requested, at least 30 days in advance of any termination or change to the Policies that would affect the interest of any of the Insured Parties (except that 10 days' notice shall be sufficient in the case of cancelation for nonpayment of premiums).

Section 11.2 Waiver of Subrogation. Landlord and Tenant shall each procure an appropriate clause in or endorsement to any property insurance covering the Real Property and personal property, fixtures and equipment located therein, wherein the insurer waives subrogation or consents to a waiver of right of recovery, and Landlord and Tenant agree not to make any claim against, or seek to recover from, the other for any loss or damage to its property or the property of others resulting from fire or other hazards to the extent covered by

the property insurance that was required to be carried by that party under the terms of this Amended and Restated Lease. Tenant acknowledges that Landlord shall not carry insurance on, and shall not be responsible for, (i) damage to any Above Building Standard Installations, (ii) Tenant's Property, and (iii) any loss suffered by Tenant due to interruption of Tenant's business.

Section 11.3 Restoration. (a) If the Premises are damaged by fire or other casualty, or if the Building is damaged such that Tenant is deprived of reasonable access to the Premises, the damage shall be repaired by Landlord, to substantially the condition of the Premises prior to the damage, subject to the provisions of any Mortgage or Superior Lease, but Landlord shall have no obligation to repair or restore (i) Tenant's Property or (ii) except as provided in Section 11.3(b), any Alterations or improvements to the Premises to the extent such Alterations or improvements exceed Building Standard Installations (**"Above Building Standard Installations"**). So long as Tenant is not in default beyond applicable grace or notice provisions in the payment or performance of its obligations under this Section 11.3, and provided Tenant timely delivers to Landlord either Tenant's Restoration Payment (as hereinafter defined) or the Restoration Security (as hereinafter defined) or Tenant expressly waives any obligation of Landlord to repair or restore any of Tenant's Above Building Standard Installations, then until the restoration of the Premises is Substantially Completed or would have been Substantially Completed but for Tenant Delay, Fixed Rent, Tenant's Tax Payment and Tenant's Operating Payment shall be reduced in the proportion by which the area of the part of the Premises which is not usable (or accessible) and is not used by Tenant bears to the total area of the Premises.

(b) As a condition precedent to Landlord's obligation to repair or restore any Above Building Standard Installations, Tenant shall (i) pay to Landlord upon demand a sum (**"Tenant's Restoration Payment"**) equal to the amount, if any, by which (A) the cost, as estimated by a reputable independent contractor designated by Landlord, of repairing and restoring all Alterations and Initial Installations in the Premises to their condition prior to the damage, exceeds (B) the cost of restoring the Premises with Building Standard Installations, or (ii) furnish to Landlord security (the **"Restoration Security"**) in form and amount reasonably acceptable to Landlord to secure Tenant's obligation to pay all costs in excess of restoring the Premises with Building Standard Installations. If Tenant shall fail to deliver to Landlord either (1) Tenant's Restoration Payment or the Restoration Security, as applicable, or (2) a waiver by Tenant, in form satisfactory to Landlord, of all of Landlord's obligations to repair or restore any of the Above Building Standard Installations, in either case within 15 days after Landlord's demand therefor, Landlord shall have no obligation to restore any Above Building Standard Installations and Tenant's abatement of Fixed Rent, Tenant's Tax Payment and Tenant's Operating Payment shall cease when the restoration of the Premises (other than any Above Building Standard Installations) is Substantially Complete.

Section 11.4 Landlord's Termination Right. Notwithstanding anything to the contrary contained in Section 11.3, (a) if the Premises are totally damaged or are rendered wholly untenantable, (b) if the Building shall be so damaged that, in Landlord's reasonable opinion, substantial alteration, demolition, or reconstruction of the Building shall be required (whether or not the Premises are so damaged or rendered untenantable), (c) if any Mortgagee shall require that the insurance proceeds or any portion thereof be used to retire the Mortgage debt or any Lessor shall terminate the Superior Lease, as the case may be, or (d) if the damage is not fully covered, except for deductible amounts, by Landlord's insurance policies, then in any of such events, Landlord may, not later than 60 days following the date of the damage, terminate this Amended and Restated Lease by notice to Tenant. If this Amended and Restated Lease is so

terminated, (a) the Term shall expire upon the 30th day after such notice is given, (b) Tenant shall vacate the Premises and surrender the same to Landlord, (c) Tenant's liability for Rent shall cease as of the date of the damage, and (d) any prepaid Rent for any period after the date of the damage shall be refunded by Landlord to Tenant.

Section 11.5 Tenant's Termination Right. If the Premises are totally damaged and are thereby rendered wholly untenantable, or if the Building shall be so damaged that Tenant is deprived of reasonable access to the Premises, and if Landlord elects to restore the Premises, Landlord shall, within 60 days following the date of the damage, cause a contractor or architect selected by Landlord to give notice (the **"Restoration Notice"**) to Tenant of the date by which such contractor or architect estimates the restoration of the Premises (excluding any Above Building Standard Installations) shall be Substantially Completed. If such date, as set forth in the Restoration Notice, is more than 18 months from the date of such damage, then Tenant shall have the right to terminate this Amended and Restated Lease by giving notice (the **"Termination Notice"**) to Landlord not later than 30 days following delivery of the Restoration Notice to Tenant. If Tenant delivers a Termination Notice, this Amended and Restated Lease shall be deemed to have terminated as of the date of the giving of the Termination Notice, in the manner set forth in the second sentence of Section 11.4.

Section 11.6 Final 18 Months. Notwithstanding anything to the contrary in this Article 11, if any damage during the final 18 months of the Term renders the Premises wholly untenantable, either Landlord or Tenant may terminate this Amended and Restated Lease by notice to the other party within 30 days after the occurrence of such damage and this Amended and Restated Lease shall expire on the 30th day after the date of such notice. For purposes of this Section 11.6, the Premises shall be deemed wholly untenantable if Tenant shall be precluded from using more than 50% of the Premises for the conduct of its business and Tenant's inability to so use the Premises is reasonably expected to continue for more than 90 days.

Section 11.7 Landlord's Liability. Any Building employee to whom any property shall be entrusted by or on behalf of Tenant shall be deemed to be acting as Tenant's agent with respect to such property and neither Landlord nor its agents shall be liable for any damage to such property, or for the loss of or damage to any property of Tenant by theft or otherwise. None of the Insured Parties shall be liable for any injury or damage to persons or property or interruption of Tenant's business resulting from fire or other casualty, any damage caused by other tenants or persons in the Building or by construction of any private, public or quasi-public work, or any latent defect in the Premises or in the Building (except that Landlord shall be required to repair the same to the extent provided in Article 6). No penalty shall accrue for delays which may arise by reason of adjustment of casualty insurance on the part of Landlord or Tenant, or for any Unavoidable Delays arising from any repair or restoration of any portion of the Building, provided that Landlord shall use reasonable efforts to minimize interference with Tenant's use and occupancy of the Premises during the performance of any such repair or restoration.

ARTICLE 12

EMINENT DOMAIN

Section 12.1 Taking.

(a) Total Taking. If all or substantially all of the Real Property, the Building or the Premises shall be acquired or condemned for any public or quasi-public purpose (a **"Taking"**), this Amended and Restated Lease shall terminate and the Term shall end as of the date of the vesting of title and Rent shall be prorated and adjusted as of such date.

(b) Partial Taking. Upon a Taking of only a part of the Real Property, the Building or the Premises then, except as hereinafter provided in this Article 12, this Amended and Restated Lease shall continue in full force and effect, provided that from and after the date of the vesting of title, Fixed Rent and Tenant's Proportionate Share shall be modified to reflect the reduction of the Premises and/or the Building as a result of such Taking.

(c) Landlord's Termination Right. Whether or not the Premises are affected, Landlord may, by notice to Tenant, within 60 days following the date upon which Landlord receives notice of the Taking of all or a portion of the Real Property, the Building or the Premises, terminate this Amended and Restated Lease as of the date immediately prior to the date of vesting of title, provided that Landlord elects to terminate leases (including this Lease) affecting at least 50% of the rentable area of the Building.

(d) Tenant's Termination Right. If the part of the Real Property so Taken contains more than 20% of the total area of the Premises occupied by Tenant immediately prior to such Taking, or if, by reason of such Taking, Tenant no longer has reasonable means of access to the Premises, Tenant may terminate this Amended and Restated Lease by notice to Landlord given within 30 days following the date upon which Tenant is given notice of such Taking. If Tenant so notifies Landlord, this Amended and Restated Lease shall end and expire upon the 30th day following the giving of such notice. If a part of the Premises shall be so Taken and this Amended and Restated Lease is not terminated in accordance with this Section 12.1 Landlord, without being required to spend more than it collects as an award, shall, subject to the provisions of any Mortgage or Superior Lease, restore that part of the Premises not so Taken to a self-contained rental unit substantially equivalent (with respect to character, quality, appearance and services) to that which existed immediately prior to such Taking, excluding Tenant's Property and any Above Building Standard Installations.

(e) Apportionment of Rent. Upon any termination of this Amended and Restated Lease pursuant to the provisions of this Article 12, Rent shall be apportioned as of, and shall be paid or refunded up to and including, the earlier of the date the taking is effective or the date of such termination of this Amended and Restated Lease.

Section 12.2 Awards. Upon any Taking, Landlord shall receive the entire award for any such Taking, and Tenant shall have no claim against Landlord or the condemning authority for the value of any unexpired portion of the Term or Tenant's Alterations; and Tenant hereby assigns to Landlord all of its right in and to such award. Nothing contained in this Article 12 shall be deemed to prevent Tenant from making a separate claim in any condemnation proceedings for the then value of any Tenant's Property or Above Building Standard Installations included in such Taking and for any moving expenses, provided any such award is in addition to, and does not result in a reduction of, the award made to Landlord.

Section 12.3 Temporary Taking. If all or any part of the Premises is Taken temporarily during the Term for any public or quasi-public use or purpose, Tenant shall give prompt notice to Landlord and the Term shall not be reduced or affected in any way and Tenant shall continue to pay all Rent payable by Tenant without reduction or abatement and to perform all of its other obligations under this Amended and Restated Lease, except to the extent prevented from doing so by the condemning authority, and Tenant shall be entitled to receive any award or payment from the condemning authority for such use, which shall be received, held and applied by Tenant as a trust fund for payment of the Rent falling due.

ARTICLE 13

ASSIGNMENT AND SUBLETTING

Section 13.1 Consent Requirements.

(a) No Transfers. Except as expressly set forth herein, Tenant shall not assign, mortgage, pledge, encumber, or otherwise transfer this Amended and Restated Lease, whether by operation of law or otherwise, and shall not sublet, or permit, or suffer the Premises or any part thereof to be used or occupied by others (whether for desk space, mailing privileges or otherwise), without Landlord's prior consent in each instance, which consent shall not be unreasonably withheld, conditioned or delayed as provided in Section 13.3. Any assignment, sublease, mortgage, pledge, encumbrance or transfer in contravention of the provisions of this Article 13 shall be void and shall constitute an Event of Default.

(b) Collection of Rent. If, without Landlord's consent, this Amended and Restated Lease is assigned, or any part of the Premises is sublet or occupied by anyone other than Tenant or this Amended and Restated Lease is encumbered (by operation of law or otherwise), Landlord may collect rent from the assignee, subtenant or occupant, and apply the net amount collected to the Rent herein reserved. No such collection shall be deemed a waiver of the provisions of this Article 13, an acceptance of the assignee, subtenant or occupant as tenant, or a release of Tenant from the performance of Tenant's covenants hereunder, and in all cases Tenant shall remain fully liable for its obligations under this Amended and Restated Lease.

(c) Further Assignment/Subletting. Landlord's consent to any assignment or subletting shall not relieve Tenant from the obligation to obtain Landlord's consent to any further assignment or subletting. In no event shall any permitted subtenant assign or encumber its sublease or further sublet any portion of its sublet space, or otherwise suffer or permit any portion of the sublet space to be used or occupied by others.

Section 13.2 Tenant's Notice. If Tenant desires to assign this Amended and Restated Lease or sublet all or any portion of the Premises (sometimes referred to herein as a **"Transfer"**), Tenant shall give notice thereof to Landlord, which shall be accompanied by (a) with respect to an assignment of this Amended and Restated Lease, the date Tenant desires the assignment to be effective, and (b) with respect to a sublet of all or a part of the Premises, a description of the portion of the Premises to be sublet and the commencement date of such sublease. If Tenant has vacated all or substantially all of the Premises or is in the process of making arrangements to do so (with no intention of returning to the Premises during the Term), and if the proposed transaction is either an assignment of this Amended and Restated Lease, or a sublease of the entire Premises, such notice shall be deemed an offer from Tenant to Landlord of the right, at Landlord's option, to terminate this Amended and Restated Lease with

respect to the entire Premises. If the proposed transaction is a sublease of a portion of the Premises, which, together with all other presently existing subleases, comprises a subletting of more than 1/3rd of the rentable square footage of the Premises, and such sublease is for a term substantially equal to the then remaining Term of this Amended and Restated Lease, such notice shall be deemed an offer from Tenant to Landlord of the right, at Landlord's option to terminate this Amended and Restated Lease with respect to such space as Tenant then proposes to sublease (the **"Partial Space"**), but not any other previously subleased space, upon the terms and conditions hereinafter set forth. Such option may be exercised by notice from Landlord to Tenant within 20 days after delivery of Tenant's notice. If Landlord exercises its option to terminate this Amended and Restated Lease, (a) Tenant shall have the right within 7 days to revoke the request to assign or sublease thereby extinguishing Landlord's right to terminate this Amended and Restated Lease, or (b) if the Tenant does not give such notice within 7 days, (i) this Amended and Restated Lease shall end and expire with respect to all or a portion of the Premises, as the case may be, on the date that such assignment or sublease was to commence, provided that such date is in no event earlier than 90 days after the date of the above notice unless Landlord agrees to such earlier date, (ii) Rent shall be apportioned, paid or refunded as of such date, (iii) Tenant, upon Landlord's request, shall enter into an amendment of this Amended and Restated Lease ratifying and confirming such total or partial termination, and setting forth any appropriate modifications to the terms and provisions hereof, and (iv) Landlord shall be free to lease the Premises (or any part thereof) to Tenant's prospective assignee or subtenant or to any other party. Landlord shall pay all costs to make the Partial Space a self-contained rental unit and to install any required Building corridors.

Section 13.3 Intentionally Omitted.

Section 13.4 Conditions to Assignment/Subletting. (a) If Landlord does not exercise Landlord's termination option provided under Section 13.2, or if Landlord does not have a termination option under Section 13.2, then provided that no Event of Default then exists, Landlord's consent to the proposed assignment or subletting shall not be unreasonably withheld, conditioned or delayed. Such consent shall be granted or denied within 15 days after delivery to Landlord of (i) a true and complete statement reasonably detailing the identity of the proposed assignee or subtenant (**"Transferee"**), the nature of its business and its proposed use of the Premises, (ii) current financial information with respect to the Transferee, including its most recent financial statements, (iii) all of the terms of the proposed Transfer and the consideration therefor, together with a copy of all existing executed and/or proposed documentation pertaining to the proposed Transfer, including all existing operative documents to be executed to evidence such Transfer or the agreements incidental or related to such Transfer, provided that Landlord shall have the right to require Tenant to utilize Landlord's standard Transfer documents in connection with the documentation of such Transfer, and (iv) any other information Landlord may reasonably request. Landlord shall consent to the requested Transfer, provided that:

(i) in Landlord's reasonable judgment, the Transferee is engaged in a business or activity, and the Premises will be used in a manner, which (1) is in keeping with the then standards of the Building, (2) is for a Permitted Use, and (3) does not violate any restrictions set forth in this Amended and Restated Lease, any Mortgage or Superior Lease or any negative covenant as to use of the Premises required by any other lease in the Building;

(ii) in Landlord's reasonable judgment the Transferee is reputable with sufficient financial means to perform all of its obligations under this Amended and Restated Lease or the sublease, as the case may be;

(iii) there shall be not more than 2 subtenants (excluding Tenant or any Related Entities) in each floor of the Premises;

(iv) with respect to any assignment or subletting for which Landlord's consent is required under this Lease, Tenant shall, upon demand, reimburse Landlord for all reasonable expenses incurred by Landlord in connection with such assignment or sublease, including any investigations as to the acceptability of the Transferee and all legal costs reasonably incurred in connection with the granting of any requested consent, which legal costs shall not exceed $3,000 for a normal sublease consent (as reasonably determined by Landlord) that does not present any special issues such as the subtenant's request for a non-disturbance agreement from Landlord, the subtenant's request for significant alterations to the Premises or unusually protracted discussions with the potential subtenant or its counsel; and;

(v) the proposed Transfer is either a sublease or a non-collateral complete assignment;

(vi) the proposed Transfer would not cause Landlord to be in violation of any Requirements or any other lease, Mortgage, Superior Lease or agreement to which Landlord is a party and would not give a tenant of the Real Property a right to cancel its lease; provided, however, that Tenant shall be entitled to review the relevant portions of any such agreement that is the basis of a refusal of Landlord to grant consent to a Transfer under this item (vi) so long as Tenant agrees to keep such information strictly confidential; and

(vii) the Transferee shall not be either a governmental agency or an instrumentality thereof, nor shall the Transferee be entitled, directly or indirectly, to diplomatic or sovereign immunity, regardless of whether the Transferee agrees to waive such diplomatic or sovereign immunity, and shall be subject to the service of process in, and the jurisdiction of the courts of, the County of King and State of Washington.

The parties hereby agree, without limitation as to other reasonable grounds for withholding consent, that it shall be reasonable under this Amended and Restated Lease and under applicable law for Landlord to withhold consent to any proposed Transfer based upon any of the foregoing criteria.

(b) With respect to each and every subletting and/or assignment approved by Landlord under the provisions of this Amended and Restated Lease:

(i) the form of the proposed assignment or sublease shall be reasonably satisfactory to Landlord;

(ii) no sublease shall be for a term ending later than one day prior to the Expiration Date;

(iii) no Transferee shall take possession of any part of the Premises until an executed counterpart of such sublease or assignment has been delivered to Landlord and approved by Landlord as provided in Section 13.4(a);

(iv) if an Event of Default occurs after Landlord has given its consent but prior to the effective date of such assignment or subletting and such Event of Default is not cured prior to such effective date of such assignment or subletting, then Landlord's consent thereto, if previously granted, shall be immediately deemed revoked without further notice to

Tenant (other than any notice required prior to the effectiveness of such Event of Default), and if such assignment or subletting would have been permitted without Landlord's consent pursuant to Section 13.8, such permission shall be void and without force and effect, and in either such case, any such assignment or subletting shall constitute a further Event of Default hereunder; and

(v) each sublease shall be subject and subordinate to this Amended and Restated Lease and to the matters to which this Amended and Restated Lease is or shall be subordinate; and Tenant and each Transferee shall be deemed to have agreed that upon the occurrence and during the continuation of an Event of Default hereunder, Tenant has hereby assigned to Landlord, and Landlord may, at its option, accept such assignment of, all right, title and interest of Tenant as sublandlord under such sublease, together with all modifications, extensions and renewals thereof then in effect and such Transferee shall, at Landlord's option, attorn to Landlord pursuant to the then executory provisions of such sublease, except that Landlord shall not be (A) liable for any previous act or omission of Tenant under such sublease, (B) subject to any counterclaim, offset or defense not expressly provided in such sublease or which theretofore accrued to such Transferee against Tenant, (C) bound by any previous modification of such sublease not consented to by Landlord (unless such modification memorializes the subtenant's exercise of a right or option granted in the initial sublease or a prior amendment approved by Landlord) or by any prepayment of more than one month's rent, (D) bound to return such Transferee's security deposit, if any, except to the extent Landlord shall receive actual possession of such deposit and such Transferee shall be entitled to the return of all or any portion of such deposit under the terms of its sublease, or (E) obligated to make any payment to or on behalf of such Transferee, or to perform any work in the sublet space or the Building, or in any way to prepare the subleased space for occupancy, beyond Landlord's obligations under this Amended and Restated Lease. The provisions of this Section 13.4(b)(v) shall be self-operative, and no further instrument shall be required to give effect to this provision, provided that the Transferee shall execute and deliver to Landlord any instruments Landlord may reasonably request to evidence and confirm such subordination and attornment.

Section 13.5 Binding on Tenant; Indemnification of Landlord. Notwithstanding any assignment or subletting or any acceptance of rent by Landlord from any Transferee, Tenant and any guarantor shall remain fully liable for the payment of all Rent due and for the performance of all the covenants, terms and conditions contained in this Amended and Restated Lease on Tenant's part to be observed and performed, and any default under any term, covenant or condition of this Amended and Restated Lease by any Transferee or anyone claiming under or through any Transferee shall be deemed to be a default under this Amended and Restated Lease by Tenant. Tenant shall indemnify, defend, protect and hold harmless Landlord from and against any and all Losses resulting from any claims that may be made against Landlord by the Transferee or anyone claiming under or through any Transferee or by any brokers or other persons or entities claiming a commission or similar compensation in connection with the proposed assignment or sublease, irrespective of whether Landlord shall give or decline to give its consent to any proposed assignment or sublease, or if Landlord shall exercise any of its options under this Article 13.

Section 13.6 Tenant's Failure to Complete. If Landlord consents to a proposed assignment or sublease and Tenant fails to execute and deliver to Landlord such assignment or sublease within 180 days after the giving of such consent, or the amount of space subject to any such sublease varies by more than 10% from that specified in the notice given by Tenant to Landlord pursuant to Section 13.2, or if there are any changes in the terms and conditions of the

proposed assignment or sublease such that Landlord would initially have been entitled to refuse its consent to such Transfer under Section 13.4, then Tenant shall again comply with all of the provisions and conditions of Sections 13.2 and 13.4 before assigning this Amended and Restated Lease or subletting all or part of the Premises.

Section 13.7 Profits. If Tenant enters into any assignment or sublease permitted hereunder or consented to by Landlord, Tenant shall, within 60 days of Landlord's consent to such assignment or sublease (or if such assignment or sublease is permitted hereunder without Landlord's prior consent, within 60 days of the effective date of such assignment or sublease), deliver to Landlord a list of Tenant's reasonable third-party brokerage fees, legal fees and architectural fees paid or to be paid in connection with such transaction and, in the case of any sublease, any actual costs incurred by Tenant in separately demising the sublet space (collectively, **"Transaction Costs"**), together with a list of all of Tenant's Property to be transferred to such Transferee. The Transaction Costs shall be amortized, on a straight-line basis, over the term of any sublease. Tenant shall deliver to Landlord evidence of the payment of such Transaction Costs promptly after the same are paid. In consideration of such assignment or subletting, Tenant shall pay to Landlord:

(a) In the case of an assignment, on the effective date of the assignment, 50% of all sums and other consideration paid to Tenant by the Transferee for or by reason of such assignment (including key money, bonus money and any sums paid for services rendered by Tenant to the Transferee in excess of fair market value for such services and sums paid for the sale or rental of Tenant's Property, less the then fair market or rental value thereof, as reasonably determined by Landlord) after first deducting the Transaction Costs; or

(b) In the case of a sublease, 50% of any consideration payable under the sublease to Tenant by the Transferee which exceeds on a per square foot basis the Fixed Rent, Tenant's Tax Payment and Tenant's Operating Payment accruing during the term of the sublease in respect of the sublet space (together with any sums paid for services rendered by Tenant to the Transferee in excess of fair market value for such services and sums paid for the sale or rental of Tenant's Property, less the then fair market or rental value thereof, as reasonably determined by Landlord) after first deducting the monthly amortized amount of Transaction Costs. The sums payable under this clause shall be paid by Tenant to Landlord monthly as and when paid by the subtenant to Tenant.

The amount payable under this Section 13.7 with respect to any particular Transfer is sometimes referred to herein as the **"Transfer Premium**." Landlord or its authorized representatives shall have the right at all reasonable times to audit the books, records and papers of Tenant relating to any Transfer, and shall have the right to make copies thereof. If the Transfer Premium respecting any Transfer shall be found understated by more than three percent (3%), such event shall, at Landlord's option, be deemed to be an uncurable Event of Default (as such term is defined in Section 15.1 below) and Tenant shall, within thirty (30) days after demand, pay the deficiency, and Tenant shall pay Landlord's costs of such audit.

Section 13.8 Transfers.

(a) Generally. If Tenant is a legal entity, the transfer (by one or more transfers), directly or indirectly, by operation of law or otherwise, of a majority of the stock or other beneficial ownership interest in Tenant or of all or substantially all of the assets of Tenant (collectively, **"Ownership Interests"**) shall be deemed a voluntary assignment of this Amended and Restated Lease. For purposes of this Article the term "transfers" shall be deemed to

include (x) the issuance of new Ownership Interests which results in a majority of the Ownership Interests in Tenant being held by a person or entity which does not hold a majority of the Ownership Interests in Tenant on the Effective Date, and (y) except as provided below, the sale or transfer of all or substantially all of the assets of Tenant in one or more transactions or the merger, consolidation or conversion of Tenant into or with another business entity.

(b) Notwithstanding the foregoing or anything else to the contrary contained in this Amended and Restated Lease, the provisions of this Article 13 shall not apply to the transfer of Ownership Interests in Tenant if and so long as Tenant is publicly traded on a nationally recognized stock exchange

(c) Permitted Assignees. The provisions of Sections 13.1, 13.2 and 13.6 shall not apply to transactions with a business entity into or with which Tenant is merged, consolidated or converted or to which all or substantially all of Tenant's assets are transferred (a "**Permitted Assignee**") so long as (i) such transfer was made for a legitimate independent business purpose and not for the purpose of transferring this Amended and Restated Lease, (ii) if Tenant is merging into or with another business entity such that Tenant will no longer exist, the successor to Tenant has a tangible net worth computed in accordance with generally accepted accounting principles consistently applied (and excluding goodwill, organization costs and other intangible assets) that is at least equal to the net worth of Tenant on the Effective Date, (iii) proof satisfactory to Landlord of such net worth is delivered to Landlord at least 10 days prior to the effective date of any such transaction, (iv) any such transfer shall be subject and subordinate to all of the terms and provisions of this Amended and Restated Lease, and the transferee shall assume, in a written document reasonably satisfactory to Landlord and delivered to Landlord upon or prior to the effective date of such transfer, all the obligations of Tenant under this Amended and Restated Lease, (v) unless the successor to Tenant has a tangible net worth computed in accordance with generally accepted accounting principles consistently applied (and excluding goodwill, organization costs and other intangible assets) that is at least equal to the net worth of Tenant on the Effective Date, Tenant and any guarantor shall remain fully liable for all obligations to be performed by Tenant under this Amended and Restated Lease, provided that where such condition is satisfied Tenant and any guarantor shall be released from such obligations, and (vi) such transfer does not cause Landlord to be in default under any existing lease at the Real Property.

(d) Related Entities. Tenant may also, upon prior notice to Landlord, assign this Lease to, or permit any business entity which controls, is controlled by, or is under common control with the original Tenant (a **"Related Entity"**) to sublet all or part of the Premises for any Permitted Uses, provided the Related Entity is in Landlord's reasonable judgment of a character and engaged in a business which is in keeping with the standards for the Building and for so long as such entity remains a Related Entity. Such assignment or sublease shall not be subject to the provisions of Sections 13.1, 13.2 and 13.6. Such sublease shall not be deemed to vest in any such Related Entity any right or interest in this Amended and Restated Lease nor shall it relieve, release, impair or discharge any of Tenant's obligations hereunder. For the purposes hereof, "control" shall be deemed to mean ownership of not less than 50% of all of the Ownership Interests of such corporation or other business entity.

(e) Further Transfers. Notwithstanding the foregoing, Tenant shall have no right to assign this Amended and Restated Lease or sublease all or any portion of the Premises without Landlord's consent pursuant to this Section 13.8 if Tenant is not the initial Tenant herein named, a Permitted Assignee, a Related Entity, or a person or entity who acquired Tenant's

interest in this Amended and Restated Lease in a transaction approved by Landlord, or if an Event of Default by Tenant exists under this Amended and Restated Lease.

(f) Applicability. The limitations set forth in this Section 13.8 shall apply to Transferee(s) and guarantor(s) of this Amended and Restated Lease, if any, and any transfer by any such entity in violation of this Section 13.8 shall be a transfer in violation of Section 13.1.

(g) Modifications, Takeover Agreements. Any modification, amendment or extension of a sublease and/or any other agreement by which a landlord of a building other than the Building or its affiliate agrees to assume the obligations of Tenant under this Amended and Restated Lease shall be deemed a sublease for the purposes of Section 13.1 hereof.

Section 13.9 Assumption of Obligations. No assignment or transfer shall be effective unless and until the Transferee executes, acknowledges and delivers to Landlord an agreement in form and substance reasonably satisfactory to Landlord whereby the Transferee (a) assumes Tenant's obligations under this Amended and Restated Lease and (b) agrees that, notwithstanding such assignment or transfer, the provisions of Section 13.1 hereof shall be binding upon it in respect of all future assignments and transfers.

Section 13.10 Tenant's Liability. The joint and several liability of Tenant and any successors-in-interest of Tenant and the due performance of Tenant's obligations under this Amended and Restated Lease shall not be discharged, released or impaired by any agreement or stipulation made by Landlord, or any grantee or assignee of Landlord, extending the time, or modifying any of the terms and provisions of this Amended and Restated Lease, or by any waiver or failure of Landlord, or any grantee or assignee of Landlord, to enforce any of the terms and provisions of this Amended and Restated Lease.

Section 13.11 Listings in Building Directory. The listing of any name other than that of Tenant on the doors of the Premises, the Building directory or elsewhere shall not vest any right or interest in this Amended and Restated Lease or in the Premises, nor be deemed to constitute Landlord's consent to any assignment or transfer of this Amended and Restated Lease or to any sublease of the Premises or to the use or occupancy thereof by others. Any such listing shall constitute a privilege revocable in Landlord's discretion by notice to Tenant. Any subtenants approved by Landlord or otherwise permitted hereunder shall, upon Tenant's request, be listed in the Building directory.

ARTICLE 14

ACCESS TO PREMISES

Section 14.1 Landlord's Access. (a) Landlord, Landlord's agents and utility service providers servicing the Building may erect, use and maintain concealed ducts, pipes and conduits in and through the Premises provided such use does not cause the usable area of the Premises to be reduced beyond a *de minimis* amount. Landlord shall promptly repair any damage to the Premises caused by any work performed pursuant to this Article 14.

(b) Landlord, any Lessor or Mortgagee and any other party designated by Landlord and their respective agents shall have the right to enter the Premises at all reasonable times, upon reasonable notice (which notice may be oral) except in the case of emergency (in which event no notice shall be required), to examine the Premises, to show the Premises to

prospective purchasers, Mortgagees, Lessors or tenants and their respective agents and representatives or others and to perform Work of Improvement to the Premises or the Building.

All parts (except surfaces facing the interior of the Premises) of all walls, windows and doors bounding the Premises, all balconies, terraces and roofs adjacent to the Premises, all space in or adjacent to the Premises used for shafts, stacks, stairways, mail chutes, conduits and other mechanical facilities, Building System, Building facilities and Common Areas are not part of the Premises, and Landlord shall have the use thereof and access thereto through the Premises for the purposes of Building operation, maintenance, alteration and repair.

Section 14.2 Building Name. Landlord has the right at any time to change the name, number or designation by which the Building is commonly known.

Section 14.3 Light and Air. If at any time any windows of the Premises are temporarily darkened or covered over by reason of any Work of Improvement, any of such windows are permanently darkened or covered over due to any Requirement or there is otherwise a diminution of light, air or view by another structure which may hereafter be erected (whether or not by Landlord), Landlord shall not be liable for any damages and Tenant shall not be entitled to any compensation or abatement of any Rent, nor shall the same release Tenant from its obligations hereunder or constitute an actual or constructive eviction, provided, however, that Landlord shall use reasonable efforts to cause the duration of any such darkening or covering to be as short as possible.

ARTICLE 15

DEFAULT

Section 15.1 Tenant's Defaults. Each of the following events shall be an **"Event of Default"** hereunder:

(a) Tenant fails to pay when due any installment of Rent, if the failure continues for a period of three (3) days after notice of failure has been given by Landlord to Tenant; or

(b) Tenant fails to observe or perform any other term, covenant or condition of this Amended and Restated Lease and such failure continues for more than 30 days (10 days with respect to a default under Article 3, Article 9 or Section 26.10) after notice by Landlord to Tenant of such default, or if such default (other than a default under Article 3, Article 9 or Section 26.10) is of a nature that it cannot be completely remedied within 30 days, failure by Tenant to commence to remedy such failure within said 30 days, and thereafter diligently prosecute to completion all steps necessary to remedy such default, provided in all events the same is completed within 90 days; or

(c) if Landlord applies or retains any part of the security held by it hereunder, and Tenant fails to deposit with Landlord the amount so applied or retained by Landlord, or if Landlord draws on any Letter of Credit (as hereinafter defined), in part or in whole, and Tenant fails to provide Landlord with a replacement Letter of Credit, within 5 days after notice by Landlord to Tenant stating the amount applied, retained or drawn, as applicable; or

(d) Tenant files a voluntary petition in bankruptcy or insolvency, or is adjudicated a bankrupt or insolvent, or files any petition or answer seeking any reorganization, liquidation, dissolution or similar relief under any present or future federal bankruptcy act or any other present or future applicable federal, state or other statute or law, or makes an assignment for the benefit of creditors or seeks or consents to or acquiesces in the appointment of any trustee, receiver, liquidator or other similar official for Tenant or for all or any part of Tenant's property; or

(e) A court of competent jurisdiction shall enter an order, judgment or decree adjudicating Tenant bankrupt, or appointing a trustee, receiver or liquidator of Tenant, or of the whole or any substantial part of its property, without the consent of Tenant, or approving a petition filed against Tenant seeking reorganization or arrangement of Tenant under the bankruptcy laws of the United States, as now in effect or hereafter amended, or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days from the date of entry thereof.

The notice periods provided herein are in lieu of, and not in addition to, any notice periods provided by law.

Section 15.2 Landlord's Remedies. (a) Upon the occurrence of an Event of Default, Landlord, at its option, and without limiting the exercise of any other right or remedy Landlord may have on account of such Event of Default, and without any further demand or notice, may give to Tenant 3 days' notice of termination of this Amended and Restated Lease, in which event this Amended and Restated Lease and the Term shall come to an end and expire (whether or not the Term shall have commenced) upon the expiration of such 3 day period with the same force and effect as if the date set forth in the notice was the Expiration Date stated herein; and Tenant shall then quit and surrender the Premises to Landlord, but Tenant shall remain liable for damages as provided in this Article 15, and/or, to the extent permitted by law, Landlord may remove all persons and property from the Premises, which property shall be stored by Landlord at a warehouse or elsewhere at the risk, expense and for the account of Tenant.

(b) If Landlord elects to terminate this Amended and Restated Lease, then Landlord shall be entitled to recover from Tenant the aggregate of:

(i) The worth at the time of award of the unpaid rent earned as of the date of the termination hereof;

(ii) The worth at the time of award of the amount by which the unpaid rent which would have been earned after the date of termination hereof until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided;

(iii) The worth at the time of award of the amount by which the unpaid rent for the balance of the Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided;

(iv) Any other amount necessary to compensate Landlord for the detriment proximately caused by Tenant's failure to perform its obligations under this Amended and Restated Lease or which, in the ordinary course of things, would be likely to result therefrom; and

(v) Any other amount which Landlord may hereafter be permitted to recover from Tenant to compensate Landlord for the detriment caused by Tenant's default.

For the purposes of this Section 15.2(b), "rent" shall be deemed to be and to mean all sums of every nature required to be paid by Tenant pursuant to the terms of this Amended and Restated Lease, whether to Landlord or to others, the "time of award" shall mean the date upon which the judgment in any action brought by Landlord against Tenant by reason of such Event of Default is entered or such earlier date as the court may determine; the "worth at the time of award" of the amounts referred to in Sections 15.2(b)(i) and 15.2(b)(ii) shall be computed by allowing interest on such amounts at the Interest Rate; and the "worth at the time of award" of the amount referred to in Section 15.2(b)(iii) shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus 1% per annum.

Section 15.3 Recovering Rent as It Comes Due. Upon any Event of Default, in addition to any other remedies available to Landlord at law or in equity or under this Amended and Restated Lease, Landlord may elect to continue this Amended and Restated Lease in effect after Tenant's default and recover rent as it becomes due. Accordingly, if Landlord does not elect to terminate this Amended and Restated Lease, Landlord may, from time to time, enforce all of its rights and remedies under this Amended and Restated Lease, including the right to recover all Rent as it becomes due. Such remedy may be exercised by Landlord without prejudice to its right thereafter to terminate this Amended and Restated Lease in accordance with the other provisions contained in this Article 15. Landlord's reentry to perform acts of maintenance or preservation of, or in connection with efforts to relet, the Premises, or any portion thereof, or the appointment of a receiver upon Landlord's initiative to protect Landlord's interest under this Amended and Restated Lease shall not terminate Tenant's right to possession of the Premises or any portion thereof and, until Landlord elects to terminate this Amended and Restated Lease, this Amended and Restated Lease shall continue in full force and Landlord may pursue all its remedies hereunder. Nothing in this Article 15 shall be deemed to affect Landlord's right to indemnification, under the indemnification clauses contained in this Amended and Restated Lease, for Losses arising from events occurring prior to the termination of this Amended and Restated Lease.

Section 15.4 Reletting on Tenant's Behalf. If Tenant abandons the Premises or if Landlord elects to reenter or takes possession of the Premises pursuant to any legal proceeding or pursuant to any notice provided by Requirements, and until Landlord elects to terminate this Amended and Restated Lease, Landlord may, from time to time, without terminating this Amended and Restated Lease, recover all Rent as it becomes due pursuant to Section 15.3 and/or relet the Premises or any part thereof for the account of and on behalf of Tenant, on any terms, for any term (whether or not longer than the Term), and at any rental as Landlord in its reasonable discretion may deem advisable, and Landlord may make any Work of Improvement to the Premises in connection therewith. Tenant hereby irrevocably constitutes and appoints Landlord as its attorney-in-fact, which appointment shall be deemed coupled with an interest and shall be irrevocable, for purposes of reletting the Premises pursuant to the immediately preceding sentence. If Landlord elects to so relet the Premises on behalf of Tenant, then rentals received by Landlord from such reletting shall be applied:

(a) First, to reimburse Landlord for the costs and expenses of such reletting (including costs and expenses of retaking or repossessing the Premises, removing persons and property therefrom, securing new tenants, and, if Landlord maintains and operates the Premises, the costs thereof) and necessary or reasonable Work of Improvement.

(b) Second, to the payment of any indebtedness of Tenant to Landlord other than Rent due and unpaid hereunder.

(c) Third, to the payment of Rent due and unpaid hereunder, and the residue, if any, shall be held by Landlord and applied in payment of other or future obligations of Tenant to Landlord as the same may become due and payable.

Should the rentals received from such reletting, when applied in the manner and order indicated above, at any time be less than the total amount owing from Tenant pursuant to this Amended and Restated Lease, then Tenant shall pay such deficiency to Landlord, and if Tenant does not pay such deficiency within 5 days of delivery of notice thereof to Tenant, Landlord may bring an action against Tenant for recovery of such deficiency or pursue its other remedies hereunder or under Washington law.

Section 15.5 General. (a) All rights, powers and remedies of Landlord hereunder and under any other agreement now or hereafter in force between Landlord and Tenant shall be cumulative and not alternative and shall be in addition to all rights, powers and remedies given to Landlord at law or in equity. The exercise of any one or more of such rights or remedies shall not impair Landlord's right to exercise any other right or remedy including any and all rights and remedies of Landlord under Washington law.

(b) If, after Tenant's abandonment of the Premises, Tenant leaves behind any of Tenant's Property, then Landlord shall store such Tenant's Property at a warehouse or any other location at the risk, expense and for the account of Tenant, and such property shall be released only upon Tenant's payment of such charges, together with moving and other costs relating thereto and all other sums due and owing under this Amended and Restated Lease. If Tenant does not reclaim such Tenant's Property within the period permitted by law, Landlord may sell such Tenant's Property in accordance with law and apply the proceeds of such sale to any sums due and owing hereunder, or retain said Property, granting Tenant credit against sums due and owing hereunder for the reasonable value of such Property.

(c) To the extent permitted by law, Tenant hereby waives all provisions of, and protections under, any Requirement to the extent same are inconsistent and in conflict with specific terms and provisions hereof.

Section 15.6 Interest. If any payment of Rent is not paid when due, interest shall accrue on such payment, from the date such payment became due until paid at the Interest Rate. Tenant acknowledges that late payment by Tenant of Rent will cause Landlord to incur costs not contemplated by this Amended and Restated Lease, the exact amount of such costs being extremely difficult and impracticable to fix. Such costs include, without limitation, processing and accounting charges, and late charges that may be imposed on Landlord by the terms of any note secured by a Mortgage covering the Premises. Therefore, in addition to interest, if any amount is not paid when due, a late charge equal to 5% of such amount shall be assessed; provided, however, that on 2 occasions during any calendar year of the Term, Landlord shall give Tenant notice of such late payment and Tenant shall have a period of 5 days thereafter in which to make such payment before any late charge is assessed. Such interest and late charges are separate and cumulative and are in addition to and shall not diminish or represent a substitute for any of Landlord's rights or remedies under any other provision of this Amended and Restated Lease.

Section 15.7 Other Rights of Landlord. If Tenant fails to pay any Additional Rent when due, Landlord, in addition to any other right or remedy, shall have the same rights and remedies as in the case of a default by Tenant in the payment of Fixed Rent. If Tenant is in arrears in the payment of Rent, Tenant waives Tenant's right, if any, to designate the items against which any payments made by Tenant are to be credited, and Landlord may apply any payments made by Tenant to any items Landlord sees fit, regardless of any request by Tenant. Landlord reserves the right, without liability to Tenant and without constituting any claim of constructive eviction, to suspend furnishing or rendering to Tenant any property, material, labor, utility or other service, whenever Landlord is obligated to furnish or render the same at the expense of Tenant, in the event that (but only for so long as) Tenant is in arrears in paying Landlord for such items for more than 5 days after notice from Landlord to Tenant demanding the payment of such arrears.

Section 15.8 Landlord Defaults and Tenant Remedies.

(a) In the event of any default under this Lease by Landlord, Landlord shall have thirty (30) days after written notice from Tenant of such default to cure such default, unless such default shall be of a nature that it cannot reasonably be cured within such thirty (30) day period, in which event Landlord shall have a reasonable period of time to cure such default provided that Landlord commences to cure such default within such thirty (30) day period and shall thereafter diligently prosecute such cure to completion. If Landlord fails to cure any default within the cure period specified above, Tenant shall have its rights and remedies permitted at law or in equity.

(b) Tenant shall have the right to offset against Fixed Rent hereunder and no other Rent under this Lease (unless the amount of such offset exceeds six (6) months of Fixed Rent in which event Tenant shall have the right to offset against all Rent hereunder) the amount of any final (nonappealable) judgment or arbitration award (if the parties elect to resolve such dispute by arbitration) in favor of Tenant for amounts that Landlord is obligated to pay Tenant pursuant to this Lease, or as otherwise ordered or decreed by judicial order, to the extent not fully paid by Landlord within thirty (30) days of the date such final judgment or award was entered, together with interest at the Interest Rate from the due date thereof and interest at the Interest Rate from the date that such judgment or arbitration award is entered, or the payment obligation of Landlord arises, as the case may be.

(c) If Landlord fails to fund all or any portion of Landlord's Contribution within 30 days of the date when due (a "**Funding Failure**"), and provided the Offset Conditions (as hereinbelow defined) are fully satisfied, Tenant shall be entitled to offset the amounts owed including interest thereon, calculated from the date required to be paid, at the Interest Rate against Fixed Rent and Additional Rent under the Lease, until all such amounts owed have been recouped. The "**Offset Conditions**" are: (i) the Initial Installations, or portions thereof applicable to such Funding Failure, have been substantially completed in substantial conformity with the Final Plans; (ii) no Event of Default then exists; (iii) no unresolved dispute exists between Landlord and Tenant with respect to performance of the work or Tenant's satisfaction of the disbursement conditions; and (iv) Tenant has advised Landlord's Mortgagee in writing of the Funding Failure.

(d) Except for the offset rights set forth in Subsection 15.8(b) permitting Tenant to credit against Rent amounts owed by Landlord to Tenant as specifically provided thereunder, or as otherwise provided in the Work Letter, or as otherwise ordered or decreed by judicial order, Tenant may not offset against Rent any sums owed by Landlord to Tenant.

ARTICLE 16

LANDLORD'S RIGHT TO CURE; FEES AND EXPENSES

If Tenant defaults in the performance of its obligations under this Amended and Restated Lease, Landlord, without waiving such default, may perform such obligations at Tenant's expense: (a) immediately, and without notice, in the case of emergency or if the default (i) materially interferes with the use by any other tenant of the Building, (ii) materially interferes with the efficient operation of the Building, (iii) results in a violation of any Requirement, or (iv) results or will result in a cancellation of any insurance policy maintained by Landlord, and (b) in any other case if such default continues after 10 days from the date Landlord gives notice of Landlord's intention to perform the defaulted obligation. All costs and expenses incurred by Landlord in connection with any such performance by it and all costs and expenses, including reasonable counsel fees and disbursements, incurred by Landlord in any action or proceeding (including any unlawful detainer proceeding) brought by Landlord to enforce any obligation of Tenant under this Amended and Restated Lease and/or right of Landlord in or to the Premises or as a result of any default by Tenant under this Amended and Restated Lease, shall be paid by Tenant to Landlord on demand, with interest thereon at the Interest Rate from the date incurred by Landlord. Except as expressly provided to the contrary in this Amended and Restated Lease, all costs and expenses which, pursuant to this Amended and Restated Lease are incurred by Landlord and payable to Landlord by Tenant, and all charges, amounts and sums payable to Landlord by Tenant for any property, material, labor, utility or other services which, pursuant to this Amended and Restated Lease, are attributable directly to Tenant's use and occupancy of the Premises or presence at the Building, or at the request and for the account of Tenant, are provided, furnished or rendered by Landlord, shall become due and payable by Tenant to Landlord within 10 Business Days after receipt of Landlord's invoice for such amount.

ARTICLE 17

NO REPRESENTATIONS BY LANDLORD; LANDLORD'S APPROVAL

Section 17.1 No Representations. Except as expressly set forth herein, Landlord and Landlord's agents have made no warranties, representations, statements or promises with respect to the Building, the Real Property or the Premises and no rights, easements or licenses are acquired by Tenant by implication or otherwise. Tenant is entering into this Amended and Restated Lease after full investigation and is not relying upon any statement or representation made by Landlord not embodied in this Amended and Restated Lease.

Section 17.2 Limitation on Damages.

(a) Wherever in this Amended and Restated Lease Landlord's consent or approval is required for any assignment of this Lease or sublease of part or all of the Premises, if Landlord refuses to grant such consent or approval, whether or not Landlord expressly agreed that such consent or approval would not be unreasonably withheld, Tenant shall not make or exercise, and Tenant hereby waives, any claim for money damages (including any claim by way of set-off, counterclaim or defense) and/or any right to terminate this Amended and Restated Lease based upon Tenant's claim or assertion that Landlord unreasonably withheld or delayed its consent or approval to such assignment or sublease. Tenant's sole remedy in such event shall be an action or proceeding to enforce such provision, by specific performance, injunction

or declaratory judgment, including through the rapid arbitration procedures outlined in subsection 17.2(b) below.

(b) If the parties are unable to resolve any outstanding disagreement or dispute as to any matter relating to Landlord's consent or approval of any assignment of this Lease or sublease of part or all of the Premises, then the parties agree that such outstanding disagreement or dispute will be settled by binding arbitration. The arbitration shall be conducted in accordance with the Rules of Practice & Procedure for Arbitration of JDR in effect when the arbitration begins, except that the parties shall select an arbitrator within 20 days after either party gives notice that it requests arbitration; such arbitration shall be conducted by a single arbitrator experienced in the matters at issue and selected by the parties (or, failing agreement as to an arbitrator with such period, then an arbitrator appointed by JDR from its panel within 10 days after the end of such period), such arbitration shall (i) be held within 30 days after the appointment of the arbitrator, (ii) be held and completed in not more than one (1) day, and (iii) include a requirement that the arbitrator provide its decision within no more than 10 days. The substantially prevailing party at any such arbitration shall have the right to recover from the other party its reasonable expenses and attorneys' fees incurred at the arbitration and in any effort to have the award enforced. The judgment or award rendered by the arbitrator may be entered in any court having competent jurisdiction in accordance with RCW Chapter 7.04. The arbitration shall be held in Seattle, Washington.

(c) Notwithstanding anything to the contrary contained in this Lease, including without limitation, Article 25 below: (a) in no event shall Landlord be liable for, and Tenant, on behalf of itself and all other Tenant Parties, hereby waives any claim for, any indirect, consequential or punitive damages, including loss of profits or business opportunity, arising under or in connection with this Amended and Restated Lease, and, (b) except as set forth in Section 18.2, in no event shall Tenant be liable for, and Landlord on behalf of itself and all other Landlord Parties, hereby waives any claim for, any indirect, consequential or punitive damages, including loss of profits or business opportunity arising under or in connection with this Lease.

Section 17.3 Reasonable Efforts. For purposes of this Amended and Restated Lease, "reasonable efforts" by Landlord shall not include an obligation to employ contractors or labor at overtime or other premium pay rates or to incur any other overtime costs or additional expenses whatsoever.

ARTICLE 18

END OF TERM

Section 18.1 Expiration. Upon the expiration or other termination of this Amended and Restated Lease, Tenant shall quit and surrender the Premises to Landlord vacant, broom clean and in good order and condition, ordinary wear and tear and damage for which Tenant is not responsible under the terms of this Amended and Restated Lease excepted, and Tenant shall remove all of Tenant's Property and Specialty Alterations (but excluding any Specialty Alterations existing in the Premises as of the Commencement Date as to the various Suites comprising the Premises and not made by Tenant).

Section 18.2 Holdover; Holdover Rent. Landlord and Tenant recognize that Landlord's damages resulting from Tenant's failure to timely surrender possession of the Premises may be substantial, may exceed the amount of the Rent payable hereunder, and will

be impossible to accurately measure. Accordingly, if possession of the Premises is not surrendered to Landlord on the Expiration Date or sooner termination of this Amended and Restated Lease, and if Landlord has given or then gives Tenant written notice that Landlord has entered into a lease with a third party for all or any part of the Premises and requires immediate possession of the Premises, or if possession of the Premises is not surrendered to Landlord within 60 days of the Expiration Date or sooner termination of this Amended and Restated Lease, then in addition to any other rights or remedies Landlord may have hereunder or at law, (a) Tenant shall be liable to Landlord for (1) any payment or rent concession which Landlord may be required to make to any tenant obtained by Landlord for all or any part of the Premises (a **"New Tenant"**) in order to induce such New Tenant not to terminate its lease by reason of the holding-over by Tenant, and (2) the loss of the benefit of the bargain if any New Tenant shall terminate its lease by reason of the holding-over by Tenant, and (b) Tenant shall indemnify Landlord against all claims for damages by any New Tenant. In addition, if possession of the Premises is not surrendered to Landlord on the Expiration Date or sooner termination of this Amended and Restated Lease, Tenant shall pay to Landlord for each month (or any portion thereof) during which Tenant holds over in the Premises after the Expiration Date or sooner termination of this Lease, a sum equal to the 125% of the Rent payable under this Lease for the last full calendar month of the Term as to the first 60 days of such holdover period, and a sum equal to 150% of the Rent payable under this Lease for the last full calendar month of the Term as to the remainder of such holdover period. No holding-over by Tenant, nor the payment to Landlord of the amounts specified above, shall operate to extend the Term hereof. Nothing herein contained shall be deemed to permit Tenant to retain possession of the Premises after the Expiration Date or sooner termination of this Amended and Restated Lease, and no acceptance by Landlord of payments from Tenant after the Expiration Date or sooner termination of this Amended and Restated Lease shall be deemed to be other than on account of the amount to be paid by Tenant in accordance with the provisions of this Section 18.2.

ARTICLE 19

QUIET ENJOYMENT

Provided this Amended and Restated Lease is in full force and effect and no Event of Default then exists, Tenant may peaceably and quietly enjoy the Premises without hindrance by Landlord or any person lawfully claiming through or under Landlord, subject to the terms and conditions of this Amended and Restated Lease and to all Superior Leases and Mortgages. Notwithstanding anything in this Lease to the contrary, Landlord shall supply the basic services required by this Lease to the Premises so long as Tenant is in possession of the Premises and Tenant has not been served with an order by a sheriff or equivalent to vacate the Premises.

ARTICLE 20

NO SURRENDER; NO WAIVER

Section 20.1 No Surrender or Release. No act or thing done by Landlord or Landlord's agents or employees during the Term shall be deemed an acceptance of a surrender of the Premises, and no provision of this Amended and Restated Lease shall be deemed to have been waived by Landlord or Tenant, unless such waiver is in writing and is signed by Landlord or Tenant as applicable, except to the extent expressly provided otherwise in this Lease.

Section 20.2 No Waiver. The failure of either party to seek redress for violation of, or to insist upon the strict performance of, any covenant or condition of this Amended and Restated Lease, or any of the Rules and Regulations, shall not be construed as a waiver or relinquishment for the future performance of such obligations of this Amended and Restated Lease or the Rules and Regulations, or of the right to exercise such election but the same shall continue and remain in full force and effect with respect to any subsequent breach, act or omission. The receipt by Landlord of any Rent payable pursuant to this Amended and Restated Lease or any other sums with knowledge of the breach of any covenant of this Amended and Restated Lease shall not be deemed a waiver of such breach. No payment by Tenant or receipt by Landlord of a lesser amount than the monthly Rent herein stipulated shall be deemed to be other than a payment on account of the earliest stipulated Rent, or as Landlord may elect to apply such payment, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as Rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such Rent or pursue any other remedy provided in this Amended and Restated Lease.

ARTICLE 21

WAIVER OF TRIAL BY JURY; COUNTERCLAIM

Section 21.1 Jury Trial Waiver. THE PARTIES HEREBY AGREE THAT THIS AMENDED AND RESTATED LEASE CONSTITUTES A WRITTEN CONSENT TO WAIVER OF TRIAL BY JURY PURSUANT TO THE PROVISIONS OF WASHINGTON CODE OF CIVIL PROCEDURE SECTION 631 AND EACH PARTY DOES HEREBY CONSTITUTE AND APPOINT THE OTHER PARTY ITS TRUE AND LAWFUL ATTORNEY-IN-FACT, WHICH APPOINTMENT IS COUPLED WITH AN INTEREST, AND EACH PARTY DOES HEREBY AUTHORIZE AND EMPOWER THE OTHER PARTY, IN THE NAME, PLACE AND STEAD OF SUCH PARTY, TO FILE THIS AMENDED AND RESTATED LEASE WITH THE CLERK OR JUDGE OF ANY COURT OF COMPETENT JURISDICTION AS A STATUTORY WRITTEN CONSENT TO WAIVER OF TRIAL BY JURY.

LANDLORD'S INITIALS:  **TENANT'S INITIALS:** 

Section 21.2 Waiver of Counterclaim. If Landlord commences any summary proceeding against Tenant, Tenant will not interpose any counterclaim of any nature or description in any such proceeding (unless failure to interpose such counterclaim would preclude Tenant from asserting in a separate action the claim which is the subject of such counterclaim), and will not seek to consolidate such proceeding with any other action which may have been or will be brought in any other court by Tenant.

ARTICLE 22

NOTICES

Except as otherwise expressly provided in this Amended and Restated Lease, all consents, notices, demands, requests, approvals or other communications given under this Amended and Restated Lease shall be in writing and shall be deemed sufficiently given or rendered if delivered by hand (provided a signed receipt is obtained) or if sent by registered or certified mail (return receipt requested) or by a nationally recognized overnight delivery service

making receipted deliveries, addressed to Landlord and Tenant as set forth in Article 1, and to any Mortgagee or Lessor who shall require copies of notices and whose address is provided to Tenant, or to such other address(es) as Landlord, Tenant or any Mortgagee or Lessor may designate as its new address(es) for such purpose by notice given to the other in accordance with the provisions of this Article 22. Any such approval, consent, notice, demand, request or other communication shall be deemed to have been given on the date of receipted delivery, refusal to accept delivery or when delivery is first attempted but cannot be made due to a change of address for which no notice is given or 3 Business Days after it shall have been mailed as provided in this Article 22, whichever is earlier.

ARTICLE 23

RULES AND REGULATIONS

All Tenant Parties shall observe and comply with the Rules and Regulations, as supplemented or amended from time to time. Landlord reserves the right, from time to time, to adopt additional Rules and Regulations and to amend the Rules and Regulations then in effect, provided, however, that no such additional Rule and Regulation, or amendment to a Rule and Regulation, shall be (i) applicable only to the Premises or the Tenant, (ii) inconsistent with an express provision of this Lease, or (iii) binding on Tenant until ten (10) Business Days after Landlord has given to Tenant notice and a copy thereof. Nothing contained in this Amended and Restated Lease shall impose upon Landlord any obligation to enforce the Rules and Regulations or terms, covenants or conditions in any other lease against any other Building tenant, and Landlord shall not be liable to Tenant for violation of the same by any other tenant, its employees, agents, visitors or licensees, provided that Landlord shall enforce the Rules or Regulations against Tenant in a non-discriminatory fashion.

ARTICLE 24

BROKER

Landlord has retained Landlord's Agent as leasing agent in connection with this Amended and Restated Lease and Landlord will be solely responsible for any fee that may be payable to Landlord's Agent. Landlord agrees to pay a commission to Tenant's Broker pursuant to a separate agreement. Each of Landlord and Tenant represents and warrants to the other that neither it nor its agents have dealt with any broker in connection with this Amended and Restated Lease other than Landlord's Agent and Tenant's Broker. Each of Landlord and Tenant shall indemnify, defend, protect and hold the other party harmless from and against any and all Losses which the indemnified party may incur by reason of any claim of or liability to any broker, finder or like agent (other than Landlord's Agent and Tenant's Broker) arising out of any dealings claimed to have occurred between the indemnifying party and the claimant in connection with this Amended and Restated Lease, and/or the above representation being false.

ARTICLE 25

INDEMNITY

Section 25.1 Tenant's Indemnity. Tenant shall not do or permit to be done any act or thing upon the Premises or the Building which may subject Landlord to any liability or responsibility for injury, damages to persons or property or to any liability by reason of any

violation of any Requirement, and shall exercise such control over the Premises as to fully protect Landlord against any such liability. Except to the extent of any such injury or damage resulting from the negligence or willful misconduct of Landlord or Landlord's agents or employees, Tenant shall indemnify, defend, protect and hold harmless each of the Indemnitees from and against any and all Losses, resulting from any claims (i) against the Indemnitees arising from any act, omission or negligence of any Tenant Parties, (ii) against the Indemnitees arising from any accident, injury or damage to any person or to the property of any person and occurring in or about the Premises, and (iii) against the Indemnitees resulting from any breach, violation or nonperformance of any covenant, condition or agreement of this Amended and Restated Lease on the part of Tenant to be fulfilled, kept, observed or performed.

Section 25.2 Landlord's Indemnity. Except to the extent of any such injury or damage resulting from the negligence or willful misconduct of Tenant or Tenant's agents or employees, Landlord shall indemnify, defend, protect and hold harmless each of the Tenant Parties from and against any and all Losses, resulting from any claims (i) against the Tenant Parties arising from any act, omission or negligence of any of Landlord or Landlord's employees, agents or contractors, and (ii) against the Tenant Parties resulting from any breach, violation or nonperformance of any covenant, condition or agreement of this Amended and Restated Lease on the part of Landlord to be fulfilled, kept, observed or performed.

Section 25.3 Defense and Settlement.

(a) If any claim, action or proceeding set forth in Section 25.1 is made or brought against any Indemnitee, then upon demand by an Indemnitee, Tenant, at its sole cost and expense, shall resist or defend such claim, action or proceeding in the Indemnitee's name (if necessary), by attorneys approved by the Indemnitee, which approval shall not be unreasonably withheld, conditioned or delayed (attorneys for Tenant's insurer shall be deemed approved for purposes of this Section 25.3). Notwithstanding the foregoing, an Indemnitee may retain its own attorneys to participate or assist in defending any claim, action or proceeding involving potential liability in excess of the amount available under Tenant's liability insurance carried under Section 11.1 for such claim and Tenant shall pay the reasonable fees and disbursements of such attorneys; provided, however, that, notwithstanding anything in this Lease to the contrary, Tenant shall only be responsible for paying for one such attorney for any and all of the Landlord Parties. If Tenant fails to diligently defend or if there is a legal conflict or other conflict of interest, then Landlord may retain separate counsel at Tenant's expense. The obligations of Tenant under any indemnity herein shall be conditioned upon the Landlord Parties being reasonable in approving a settlement of any indemnified claim. Notwithstanding anything herein contained to the contrary, Tenant may direct the Indemnitee to settle any claim, suit or other proceeding provided that (a) such settlement shall involve no obligation on the part of the Indemnitee other than the payment of money, (b) any payments to be made pursuant to such settlement shall be paid in full exclusively by Tenant at the time such settlement is reached, (c) such settlement shall not require the Indemnitee to admit any liability, and (d) the Indemnitee shall have received an unconditional release from the other parties to such claim, suit or other proceeding.

(b) If any claim, action or proceeding set forth in Section 25.2 is made or brought against any Tenant Party, then upon demand by a Tenant Party, Landlord, at its sole cost and expense, shall resist or defend such claim, action or proceeding in the Tenant Party's name (if necessary), by attorneys approved by the Tenant Party, which approval shall not be unreasonably withheld, conditioned or delayed (attorneys for Landlord's insurer shall be deemed approved for purposes of this Section 25.3). Notwithstanding the foregoing, a Tenant

Party may retain its own attorneys to participate or assist in defending any claim, action or proceeding involving potential liability in excess of the amount available under any liability insurance carried by Landlord for such claim and Landlord shall pay the reasonable fees and disbursements of such attorneys; provided, however, that, notwithstanding anything in this Lease to the contrary, Landlord shall only be responsible for paying for one such attorney for any and all of the Tenant Parties. If Landlord fails to diligently defend or if there is a legal conflict or other conflict of interest, then Tenant may retain separate counsel at Landlord's expense. The obligations of Landlord under any indemnity herein shall be conditioned upon the Tenant Parties being reasonable in approving a settlement of any indemnified claim. Notwithstanding anything herein contained to the contrary, Landlord may direct the Tenant Party to settle any claim, suit or other proceeding provided that (a) such settlement shall involve no obligation on the part of the Tenant Party other than the payment of money, (b) any payments to be made pursuant to such settlement shall be paid in full exclusively by Landlord at the time such settlement is reached, (c) such settlement shall not require the Tenant Party to admit any liability, and (d) the Tenant Party shall have received an unconditional release from the other parties to such claim, suit or other proceeding.

ARTICLE 26

MISCELLANEOUS

Section 26.1 Delivery. This Amended and Restated Lease shall not be binding upon Landlord or Tenant unless and until Landlord shall have executed and delivered a fully executed copy of this Amended and Restated Lease to Tenant.

Section 26.2 Transfer of Real Property. Landlord's obligations under this Amended and Restated Lease shall not be binding upon the Landlord named herein after the sale, conveyance, assignment or transfer (collectively, a **"Landlord Transfer"**) by such Landlord (or upon any subsequent landlord after the Landlord Transfer by such subsequent landlord) of its interest in the Building or the Real Property, as the case may be, and in the event of any such Landlord Transfer, Landlord (and any such subsequent Landlord) shall be entirely freed and relieved of all covenants and obligations of Landlord hereunder arising from and after the date of the Landlord Transfer, and the transferee of Landlord's interest (or that of such subsequent Landlord) in the Building or the Real Property, as the case may be, shall be deemed to have assumed all obligations under this Amended and Restated Lease arising from and after the date of the Landlord Transfer.

Section 26.3 Limitation on Liability. The liability of Landlord for Landlord's obligations under this Lease, and with respect to Landlord's liability to Tenant under any and all documents, instruments or agreements relating to this Lease, including without limitation, any subordination, non-disturbance and attornment agreements and consents to sublease, shall be limited to Landlord's interest in the Real Property and Tenant shall not look to any other property or assets of Landlord or the property or assets of any direct or indirect partner, member, manager, shareholder, director, officer, principal, employee or agent of Landlord (collectively, the **"Parties"**) in seeking either to enforce Landlord's obligations under this Lease or to satisfy a judgment for Landlord's failure to perform such obligations; and none of the Parties shall be personally liable for the performance of Landlord's obligations under this Lease.

Section 26.4 Rent. All amounts payable by Tenant to or on behalf of Landlord under this Amended and Restated Lease, whether or not expressly denominated Fixed Rent, Tenant's

Tax Payment, Tenant's Operating Payment, Additional Rent or Rent, shall constitute rent for the purposes of Section 502(b)(6) of the United States Bankruptcy Code.

Section 26.5 Entire Document. This Amended and Restated Lease (including any Schedules and Exhibits referred to herein and all supplementary agreements provided for herein) contains the entire agreement between the parties and all prior negotiations and agreements are merged into this Amended and Restated Lease. All of the Schedules and Exhibits attached hereto are incorporated in and made a part of this Amended and Restated Lease, provided that in the event of any inconsistency between the terms and provisions of this Amended and Restated Lease and the terms and provisions of the Schedules and Exhibits hereto, the terms and provisions of this Amended and Restated Lease shall control.

Section 26.6 Governing Law. This Amended and Restated Lease shall be governed in all respects by the laws of the State of Washington.

Section 26.7 Unenforceability. If any provision of this Amended and Restated Lease, or its application to any person or entity or circumstance, shall ever be held to be invalid or unenforceable, then in each such event the remainder of this Amended and Restated Lease or the application of such provision to any other person or entity or any other circumstance (other than those as to which it shall be invalid or unenforceable) shall not be thereby affected, and each provision hereof shall remain valid and enforceable to the fullest extent permitted by law.

Section 26.8 Lease Disputes. (a) Tenant agrees that all disputes arising, directly or indirectly, out of or relating to this Amended and Restated Lease, and all actions to enforce this Amended and Restated Lease, shall be dealt with and adjudicated in the state courts of the State of Washington or the United States District Court for the Western District of Washington and for that purpose hereby expressly and irrevocably submits itself to the jurisdiction of such courts. Tenant agrees that so far as is permitted under applicable law, this consent to personal jurisdiction shall be self-operative and no further instrument or action, other than service of process in one of the manners specified in this Amended and Restated Lease, or as otherwise permitted by law, shall be necessary in order to confer jurisdiction upon it in any such court.

(b) To the extent that Tenant has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, Tenant irrevocably waives such immunity in respect of its obligations under this Amended and Restated Lease.

Section 26.9 Landlord's Agent. Unless Landlord delivers notice to Tenant to the contrary, Landlord's Agent is authorized to act as Landlord's agent in connection with the performance of this Amended and Restated Lease, and Tenant shall be entitled to rely upon correspondence received from Landlord's Agent. Tenant acknowledges that Landlord's Agent is acting solely as agent for Landlord in connection with the foregoing; and neither Landlord's Agent nor any of its direct or indirect partners, members, managers, officers, shareholders, directors, employees, principals, agents or representatives shall have any liability to Tenant in connection with the performance of this Amended and Restated Lease, and Tenant waives any and all claims against any and all of such parties arising out of, or in any way connected with, this Amended and Restated Lease, the Building or the Real Property.

Section 26.10 Estoppel. Within 7 days following request from Landlord, any Mortgagee or any Lessor, Tenant shall deliver to Landlord a statement executed and

acknowledged by Tenant, in form reasonably satisfactory to Landlord, (a) stating the Commencement Date, the Rent Commencement Date and the Expiration Date, and that this Amended and Restated Lease is then in full force and effect and has not been modified (or if modified, setting forth all modifications), (b) setting forth the date to which the Fixed Rent and any Additional Rent have been paid, together with the amount of monthly Fixed Rent and Additional Rent then payable, (c) stating whether or not, to the best of Tenant's knowledge, Landlord is in default under this Amended and Restated Lease, and, if Landlord is in default, setting forth the specific nature of all such defaults, (d) stating the amount of the Letter of Credit, if any, under this Amended and Restated Lease, (e) stating whether there are any subleases or assignments affecting the Premises, (f) stating the address of Tenant to which all notices and communications under the Amended and Restated Lease shall be sent, and (g) responding to any other matters reasonably requested by Landlord, such Mortgagee or such Lessor. Tenant acknowledges that any statement delivered pursuant to this Section 26.10 may be relied upon by any purchaser or owner of the Real Property or the Building, or all or any portion of Landlord's interest in the Real Property or the Building or any Superior Lease, or by any Mortgagee, or assignee thereof or by any Lessor, or assignee thereof.

Section 26.11 Certain Interpretational Rules. For purposes of this Amended and Restated Lease, whenever the words "include", "includes", or "including" are used, they shall be deemed to be followed by the words "without limitation" and, whenever the circumstances or the context requires, the singular shall be construed as the plural, the masculine shall be construed as the feminine and/or the neuter and *vice versa*. This Amended and Restated Lease shall be interpreted and enforced without the aid of any canon, custom or rule of law requiring or suggesting construction against the party drafting or causing the drafting of the provision in question. The captions in this Amended and Restated Lease are inserted only as a matter of convenience and for reference and in no way define, limit or describe the scope of this Amended and Restated Lease or the intent of any provision hereof.

Section 26.12 Parties Bound. The terms, covenants, conditions and agreements contained in this Amended and Restated Lease shall bind and inure to the benefit of Landlord and Tenant and, except as otherwise provided in this Amended and Restated Lease, to their respective legal representatives, successors, and assigns.

Section 26.13 Memorandum of Lease. This Amended and Restated Lease shall not be recorded; however, at Landlord's request, Landlord and Tenant shall promptly execute, acknowledge and deliver a memorandum with respect to this Amended and Restated Lease sufficient for recording and Landlord may record the memorandum. Within 10 days after the end of the Term, Tenant shall enter into such documentation as is reasonably required by Landlord to remove the memorandum of record.

Section 26.14 Counterparts. This Amended and Restated Lease may be executed in 2 or more counterparts, each of which shall constitute an original, but all of which, when taken together, shall constitute but one instrument.

Section 26.15 Survival. All obligations and liabilities of Landlord or Tenant to the other which accrued before the expiration or other termination of this Amended and Restated Lease, and all such obligations and liabilities which by their nature or under the circumstances can only be, or by the provisions of this Amended and Restated Lease may be, performed after such expiration or other termination, shall survive the expiration or other termination of this Amended and Restated Lease. Without limiting the generality of the foregoing, the rights and obligations of the parties with respect to any indemnity under this

Amended and Restated Lease, and with respect to any Rent and any other amounts payable under this Amended and Restated Lease, shall survive the expiration or other termination of this Amended and Restated Lease.

Section 26.16 Inability to Perform. This Amended and Restated Lease and the obligation of Tenant to pay Rent and to perform all of the other covenants and agreements of Tenant hereunder shall not be affected, impaired or excused by any Unavoidable Delays. Landlord shall use reasonable efforts to promptly notify Tenant of any Unavoidable Delay which prevents Landlord from fulfilling any of its obligations under this Amended and Restated Lease.

Section 26.17 Tax Status of Beneficial Owner. Tenant recognizes and acknowledges that Landlord and/or certain beneficial owners of Landlord may from time to time qualify as real estate investment trusts pursuant to Sections 856 et seq. of the Code and that avoiding (a) the loss of such status, (b) the receipt of any income derived under any provision of this Lease that does not constitute "rents from real property" (in the case of real estate investment trusts), and (c) the imposition of income, penalty or similar taxes (each an "Adverse Event") is of material concern to Landlord and such beneficial owners. In the event that this Lease or any document contemplated hereby could, in the opinion of counsel to Landlord, result in or cause an Adverse Event, Tenant agrees to reasonably cooperate with Landlord in negotiating an amendment or modification thereof and shall at the request of Landlord execute and deliver such documents reasonably required to effect such amendment or modification; provided Landlord shall reimburse Tenant for its reasonable costs and expenses, including attorney's fees, associated with the negotiation and preparation of an amendment or modification to the Lease as may be required under this Section. Any amendment or modification pursuant to this Section shall be structured so that the economic results to Landlord and Tenant shall be substantially similar to those set forth in this Lease without regard to such amendment or modification and shall neither increase Tenant's obligations under this Lease nor adversely affect Tenant's rights under this Lease. Without limiting any of Landlord's other rights under this Section, Landlord may waive the receipt of any amount payable to Landlord hereunder and such waiver shall constitute an amendment or modification of this Lease with respect to such payment. Tenant expressly covenants and agrees not to enter into any sublease or assignment which provides for rental or other payment for such use, occupancy, or utilization based in whole or in part on the net income or profits derived by any person from the property leased, used, occupied, or utilized (other than an amount based on a fixed percentage or percentages of receipts or sales), and that any such purported sublease or assignment shall be absolutely void and ineffective as a conveyance of any right or interest in the possession, use, occupancy, or utilization of any part of the Premises.

ARTICLE 27

SECURITY DEPOSIT

Section 27.1 Security Deposit. Tenant shall deposit the Security Deposit with Landlord upon the execution of this Amended and Restated Lease in cash as security for the faithful performance and observance by Tenant of the terms, covenants and conditions of this Amended and Restated Lease.

Section 27.2 Application of Security. If (a) an Event of Default by Tenant occurs in the payment or performance of any of the terms, covenants or conditions of this Amended and Restated Lease, including the payment of Rent, or (b) Tenant fails to make any installment of Rent as and when due, Landlord may apply or retain the whole or any part of the Security

Deposit, to the extent required for the payment of any Fixed Rent or any other sum as to which Tenant is in default including (i) any sum which Landlord may expend or may be required to expend by reason of Tenant's default, and/or (ii) any damages to which Landlord is entitled pursuant to this Amended and Restated Lease, whether such damages accrue before or after summary proceedings or other reentry by Landlord. If Landlord applies or retains any part of the Security Deposit, Tenant, upon demand, shall deposit with Landlord the amount so applied or retained so that Landlord shall have the full Security Deposit on hand at all times during the Term. If Tenant shall comply with all of the terms, covenants and conditions of this Amended and Restated Lease, the Security Deposit shall be returned to Tenant after the Expiration Date and after delivery of possession of the Premises to Landlord in the manner required by this Amended and Restated Lease.

Section 27.3 Transfer. Upon a sale or other transfer of the Real Property or the Building, or any financing of Landlord's interest therein, Landlord shall have the right to transfer the Security Deposit to its transferee or lender. Upon receipt of written notice from Landlord that it has so transferred the Security Deposit to its transferee or lender, Tenant shall look solely to the new landlord or lender for the return of such Security Deposit and the provisions hereof shall apply to every transfer or assignment made of the Security Deposit to a new landlord. Tenant shall not assign or encumber or attempt to assign or encumber the Security Deposit and neither Landlord nor its successors or assigns shall be bound by any such action or attempted assignment, or encumbrance.

ARTICLE 28

OPTION TO EXTEND

Tenant shall, provided this lease is in full force and effect and Tenant is not then in default under any of the terms and conditions of this Lease beyond applicable notice and cure periods, have one (1) option to extend this Lease for a period of five (5) years following the expiration of the Lease (the "**Extension Period**") at the then-current Fair Market Value. The term "Fair Market Value" shall mean the then prevailing market rate for full service base rent for tenants of comparable quality for renewal leases in comparable Class A office buildings of comparable age, use, location and quality in the Central Business District of Seattle, Washington taking into consideration the extent of the availability of space as large as the Premises in the marketplace and all other economic terms then customarily prevailing in such renewal leases in such marketplace, including any economic concessions such as additional tenant improvement allowances, "free" or reduced rent periods, and/or real estate commissions. The terms and conditions of the Extension Period will be on the same terms and conditions set forth in this Lease, except as modified by the terms and conditions set forth below:

(a) The Tenant must give Landlord binding notice of Tenant's election to exercise the option by written notice (the "Extension Notice") no earlier than twelve months and no later than nine (9) months prior to the Expiration Date, time being of the essence. If the Tenant fails to timely provide the Extension Notice, Tenant shall have no further or additional right to extend the Lease.

(b) The Fixed Rent in effect at the expiration of the then current term of this Lease shall be adjusted to reflect the then-current Fair Market Value for comparable Class A office buildings in the Seattle Central Business District office market determined as provided in this Article 28.

(c) Landlord shall advise Tenant of the new Fixed Rent for the Extension Period no later than sixty (60) days from the date of receipt by Landlord of Tenant's Extension Notice. Tenant and Landlord will have sixty (60) days from Landlord's notice of the new Fixed Rent (the "**Negotiation Period**") to negotiate a mutually agreeable rental rate.

(d) If Tenant and Landlord are unable to agree on a mutually acceptable Fixed Rent for the Extension Period during the Negotiation Period, then within ten (10) days following the expiration of the Negotiation Period, Landlord and Tenant shall each appoint a licensed real estate broker with at least ten (10) year's experience in leasing office space in the Seattle Central Business District office market to act as arbitrators. The two (2) arbitrators so appointed shall determine the Fair Market Value for the Premises for the Extension Period based on the above criteria and such other reasonable factors as may be raised by Tenant or Landlord and each shall submit his or her determination of the Fair Market Value to Landlord and Tenant in writing, within sixty (60) days after their appointment (the "**Final Offers**"). If the Fair Market Value as determined by the lower of the two (2) proposed Final Offers is not more than ten percent (10%) below the higher, then the Fair Market Value shall be determined by averaging the two (2) Final Offers.

(e) If the two (2) arbitrators so appointed cannot agree on the Fair Market Value for the Extension Period within ten percent (10%) of each other within such 60-day period, the two (2) arbitrators shall within five (5) days thereafter appoint a third arbitrator who shall be a licensed real estate broker with at least ten (10) year's experience in leasing office space in the Seattle Central Business District office market. The third arbitrator so appointed shall independently determine the Fair Market Value for the Premises for the Extension Period within thirty (30) days after appointment, by selecting from the proposals submitted by each of the first two arbitrators the one that most closely approximates the third arbitrator's determination of the Fair Market Value. The third arbitrator shall have no right to adopt a compromise or middle ground or any modification of either of the Final Offers submitted by the first two arbitrators. The Final Offer chosen by the third arbitrator as most closely approximating the third arbitrator's determination of the Fair Market Value for the Extension Period shall constitute the decision and award of the arbitrators and shall be final and binding on the parties.

(f) Each party shall pay the fees and expenses of the arbitrator appointed by such party and one-half (1/2) of the fees and expenses of the third arbitrator.

(g) If either party fails to appoint an arbitrator, or if either of the first two arbitrators fails to submit his or her Final Offer of Fair Market Value to the other party, in each case within the time periods set forth above, then the decision of the other party's arbitrator shall be considered final and binding.

This Option to Extend shall not be available to a subtenant of all or a portion of the Premises or an assignee (other than a Permitted Assignee, a Related Entity or a person or entity who acquired Tenant's interest in this Amended and Restated Lease in a transaction approved by Landlord) unless otherwise agreed in writing by Landlord. Except as provided in the preceding sentence, this option is intended to be personal to the specific Tenant entity named in the Lease.

ARTICLE 29

OPTION TO TERMINATE

Tenant shall have the right, at its option, to terminate this Lease as of April 1, 2015, (the "Termination Date") by giving Landlord notice to such effect (the "**Termination Notice**") not less than nine (9) months before the Termination Date and paying the Termination Payment to Landlord on or before the Termination Date. The Termination Payment shall be $1,367,844.41. This option to terminate shall not be available to a subtenant of all or a portion of the Premises or an assignee (other than a Permitted Assignee, a Related Entity or a person or entity who acquired Tenant's interest in this Amended and Restated Lease in a transaction approved by Landlord) unless otherwise agreed in writing by Landlord. Except as provided in the preceding sentence, this option is intended to be personal to the specific Tenant entity named in the Lease.

ARTICLE 30

PARKING

Section 30.1 General. Tenant shall have the right to use one (1) parking stall in the parking garage of the Building per each 1,450 rentable square feet of space in the Premises from time to time. All such parking stalls shall be on a non-exclusive and unreserved basis. Tenant shall pay Landlord's then current rates from time to time for such parking stalls as Tenant elects to use during the Term. Landlord's current rate of each such parking stall is $320.00 per month.

Section 30.2 Change in Utilization. From time to time, or upon any change in the aggregate rentable square feet of space in the Premises, Tenant may give Landlord not less than sixty (60) days prior notice of Tenant's desire to obtain all or a specified number of the parking contracts out of the above referenced parking allocation, and upon Landlord's request, Tenant or its designated users shall execute the parking garage operator's standard form of parking agreement. To the extent that Tenant or users fail to execute monthly parking contracts for any portion of the parking allocation within the aforementioned periods, or if Tenant or users subsequently fail to continuously maintain all requested parking contracts, Tenant shall have a continuing right to claim such unused parking contracts in the parking allocation, by giving Landlord not less than sixty (60) days prior notice of Tenant's desire to do so, and, thereby to reclaim such lapsed parking contracts, at any time and from time to time upon such prior written notice to Landlord.

ARTICLE 31

SPECIAL PROVISION AS TO SUITE 2050

As provided in this Amended and Restated Lease, Suite 2050, consisting of the remaining 8,936 rentable square feet of space on the 20th floor not occupied by Tenant shall be added to, and become a part of, the Premises on April 1, 2012. Tenant shall have the right to determine in its sole discretion and without prior review or approval of Landlord, which 8,400 square feet on the 20th floor of the Building it shall occupy prior to April 1, 2012. Additionally, Landlord acknowledges that Tenant may make incidental and non-continuous use of space included in Suite 2050 from time to time (excluding the designated lunchroom for which a separate fee is being paid pursuant to Section 2.6) and that such incidental and non-continuous use shall not trigger any acceleration of the Commencement Date for Suite 2050 set forth above; provided that, notwithstanding the foregoing, the insurance requirements of Article 11, the Rules and Regulations requirements of Article 23 and the indemnity requirements of Article 25 shall apply with respect to the lunchroom and any space included in Suite 2050 for which such incidental or non-continuous use occurs.

ARTICLE 32

LANDLORD'S HOLDOVER PAYMENTS

Commencing upon written request of Tenant, Landlord shall pay to Fifth & Pine LLC, a Delaware limited liability company ("**Fifth**"), on behalf of Tenant, the additional rent charged by Fifth with respect to Tenant's holding over of its existing lease of space in the building commonly known as the Fifth & Pine Building, located 413 Pine Street, Seattle, WA; provided that such additional rent shall only include amounts charged by Fifth in excess of the current rate of seventeen dollars ($17) per square foot; and provided, further, that Landlord's obligation to pay such amounts to Fifth shall only be effective for a period of three (3) months. The written request of Tenant shall indicate the amount of such additional rent, the date on which each such payment is due and location to which payment shall be made by Landlord. In the event for any reason Landlord is unable to make payment directly to Fifth, or Fifth refuses to accept such payment, then Landlord shall instead make such payments to Tenant.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Amended and Restated Lease as of the day and year first above written.

LANDLORD:

520 PIKE STREET, INC., a Delaware corporation

By: /s/ Steven R. Wechsler

Its: Senior Managing Director

TENANT:

Marchex, Inc., a Delaware corporation

By: /s/ Russell C. Horowitz

Its: Chief Executive Officer

STATE OF NEW YORK)
) ss.
COUNTY OF NEW YORK)

On this day personally appeared before me Steven Wechsler, to me known to be the SMD of **520 Pike Street, Inc.,** a Delaware corporation, the corporation that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned, and on oath stated that he/she was authorized to execute the same instrument.

GIVEN under my hand and official seal this 10th day of June, 2009.

/s/ Jessica L. Iburg
Jessica L. Iburg
(print notary's name)

Notary Public in and for the State of New York, residing at Brooklyn, NY.
My commission expires: March 20, 2012.

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

On this day personally appeared before me Russell Horowitz, to me known to be the CEO of **Marchex, Inc.**, a Delaware corporation, the corporation that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned, and on oath stated that he/she was authorized to execute the same instrument.

GIVEN under my hand and official seal this 5th day of June, 2009.

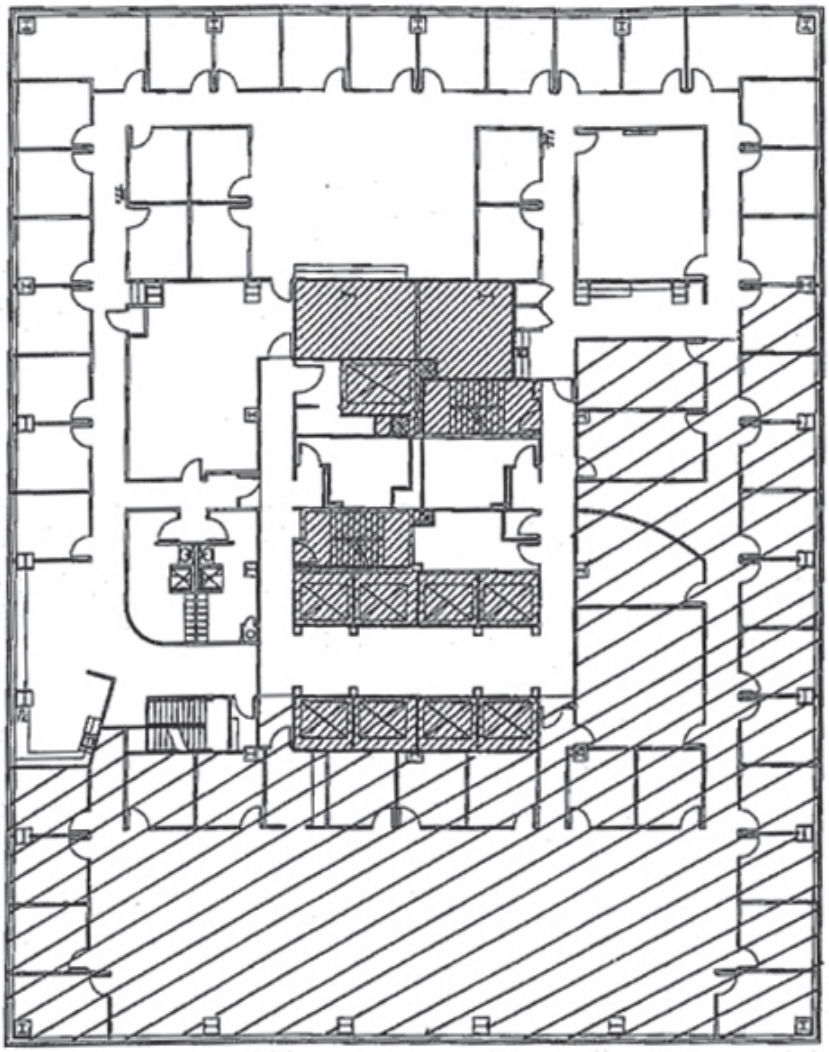
/s/ Elizabeth Hennick
Elizabeth Hennick
(print notary's name)

Notary Public in and for the State of Washington, residing at Kenmore, WA.
My commission expires: 06/20/2011.

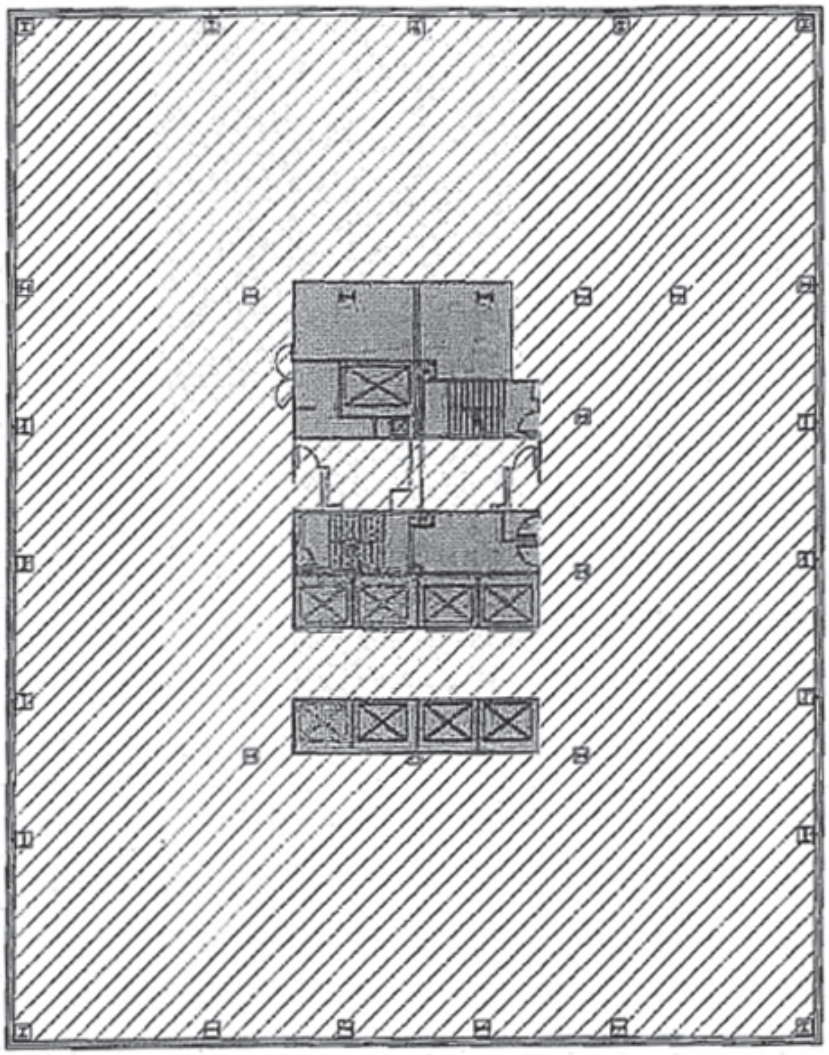
EXHIBIT A-1

Floor Plan

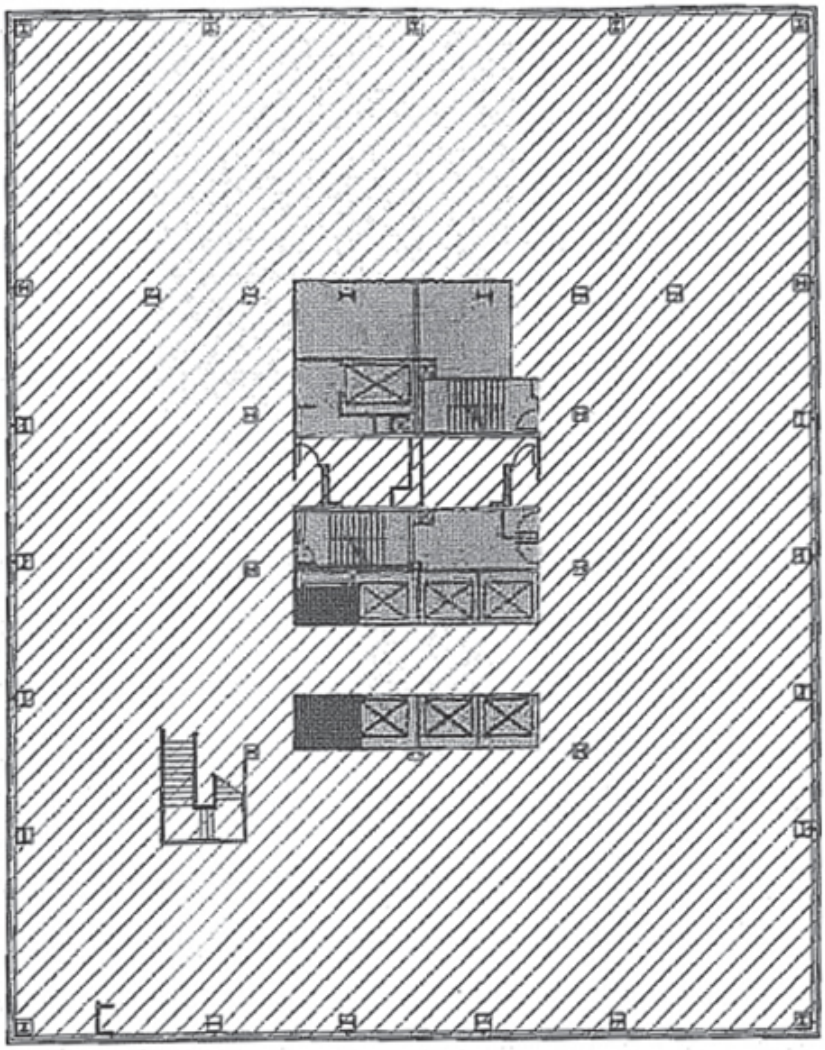
The floor plan which follows is intended solely to identify the general location of the Premises, and should not be used for any other purpose. All areas, dimensions and locations are approximate, and any physical conditions indicated may not exist as shown.



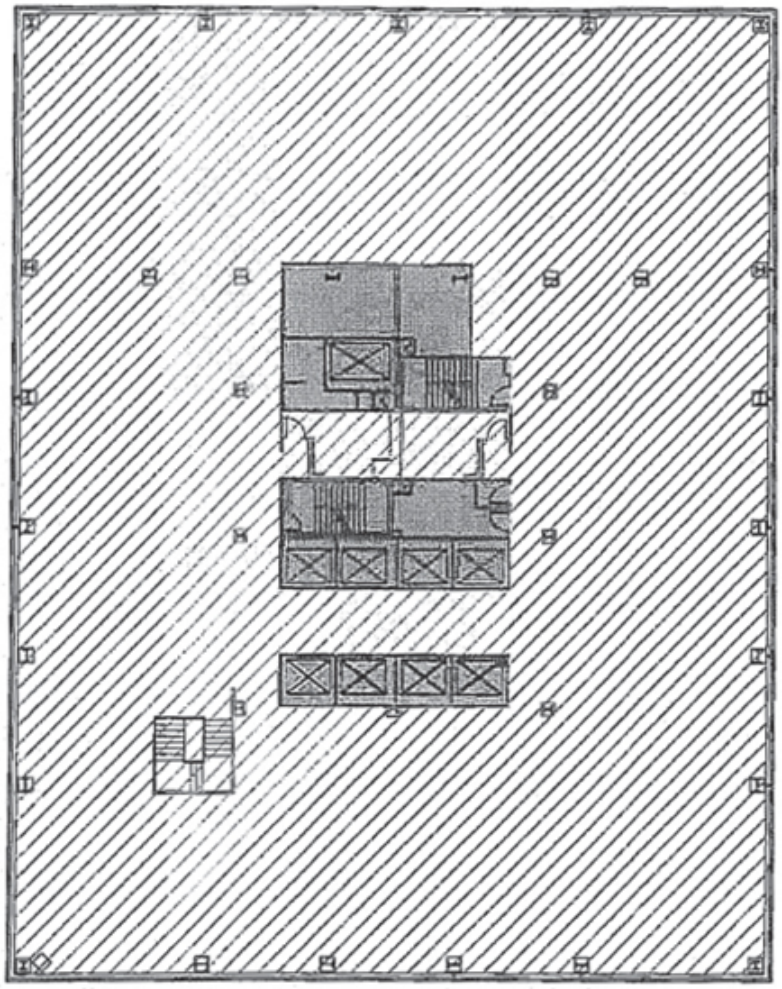
CONTACT:	ISSUED TO:	DATE: 19AUG04
520 PIKE TOWER	SCALE:	NORTH:
	TITLE: FLOORPLATE SEVENTEENTH FLOOR	PLAN PREPARED BY: bw burgess.weaver



BUILDING:	ISSUED TO:	DATE: 04JUN09
520 PIKE TOWER	SCALE:	NORTH:
	TITLE: MARKETING SHEET EIGHTEENTH FLOOR	



BULDING:	ISSUED TO:	DATE: 04JUN09
520 PIKE TOWER	SCALE:	NORTH:
	TITLE: MARKETING SHEET NINETEENTH FLOOR	



CONTACT:	ISSUED TO:	DATE: 04JUN09
520 PIKE TOWER	SCALE:	NORTH:
	TITLE: MARKETING SHEET TWENTIETH FLOOR	PLAN PREPARED BY:

EXHIBIT A-2

Legal Description

Lots 10 and 11, Block 18, Addition to the Town of Seattle, as laid out by A.A. Denny (commonly known as A.A. Denny's 3rd Addition to the City of Seattle), according to the plat thereof recorded in Volume 1 of Plats, page 33, in King County, Washington, EXCEPT the southerly 10 feet of said Lot 11, condemned in King County Superior Court Cause No. 41394 for the widening of Pike Street, as provided by Ordinance No. 10051 of the City of Seattle.

SUBJECT TO AND TOGETHER WITH all rights and obligations granted and undertaken pursuant to: (a) Development and Parking Rights Agreement dated April 8, 1982 recorded under King County, Washington recording number 8204080464, as amended by agreements recorded under King County, Washington recording numbers 8208240318 and 8208240316, and as it may be further amended from time to time, and (b) Development Rights Agreement dated May 30, 1982 recorded under King County, Washington recording number 8208240314, as amended by agreement recorded under King County, Washington recording number 8208240316, and a Memorandum dated December 5, 1988 recorded under King County, Washington recording number 8812051221, and as it may be further amended from time to time.

EXHIBIT B

Definitions

Base Rate: The annual rate of interest publicly announced from time to time by Citibank, N.A., or its successor, in New York, New York as its "base rate" (or such other term as may be used by Citibank, N.A., from time to time, for the rate presently referred to as its "base rate").

Building Systems: The mechanical, electrical, plumbing, sanitary, sprinkler, heating, ventilation and air conditioning, security, life-safety, elevator and other service systems or facilities of the Building up to the point of connection of localized distribution to the Premises (excluding, however, supplemental HVAC systems of tenants, sprinklers and the horizontal distribution systems within and servicing the Premises and by which mechanical, electrical, plumbing, sanitary, heating, ventilating and air conditioning, security, life-safety and other service systems are distributed from the base Building risers, feeders, panelboards, etc. for provision of such services to the Premises).

Business Days: All days, excluding Saturdays, Sundays and Observed Holidays.

Code: The Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, as amended.

Common Areas: The lobby, plaza and sidewalk areas, parking garage, and other similar areas of general access and the areas on individual multi-tenant floors in the Building devoted to corridors, elevator lobbies, restrooms, and other similar facilities serving the Premises.

Comparable Buildings: First-class office buildings of comparable age and quality in the central business district of Seattle, Washington.

Excluded Expenses: (a) Taxes; (b) franchise or income taxes imposed upon Landlord; (c) mortgage amortization and interest; (d) leasing commissions; (e) the cost of tenant installations and decorations incurred in connection with preparing space for any Building tenant, including workletters and concessions; (f) fixed rent under Superior Leases, if any; (g) management fees to the extent in excess of the greater of (A) five percent (5%) of the gross rentals and other revenues collected for the Real Property (plus reimbursable expenses payable in connection with property management services), and (B) fees charged by Landlord or related entities for the management by any of them of other first class properties in the area of the Building; (h) wages, salaries and benefits paid to any persons above the grade of property manager or chief engineer and their immediate supervisor; (i) legal and accounting fees relating to (A) disputes with tenants, prospective tenants or other occupants of the Building, (B) disputes with purchasers, prospective purchasers, mortgagees or prospective mortgagees of the Building or the Real Property or any part of either, or (C) negotiations of leases, contracts of sale or mortgages; (j) costs of services provided to other tenants of the Building on a "rent-inclusion" basis which are not provided to Tenant on such basis; (k) costs that are reimbursed out of insurance, warranty or condemnation proceeds, or which are reimbursed by Tenant or other tenants other than pursuant to an expense escalation clause; (l) costs in the nature of penalties or fines; (m) costs for services, supplies or repairs paid to any related entity in excess of costs that would be payable in an "arm's length" or unrelated situation for comparable services, supplies or repairs; (n) allowances, concessions or other costs and expenses of improving or decorating any demised or demisable space in the Building; (o) advertising and promotional expenses in connection with leasing of the Building; (p) the costs of installing, operating and

maintaining a specialty improvement, including a cafeteria, lodging or private dining facility, or an athletic, luncheon or recreational club unless Tenant is permitted to make use of such facility without additional cost (other than payments for key deposits, use of towels, or other incidental items) or on a subsidized basis consistent with other users; (q) any costs or expenses (including fines, interest, penalties and legal fees) arising out of Landlord's failure to timely pay Operating Expenses or Taxes; (r) costs incurred in connection with the removal, encapsulation or other treatment of asbestos or any other Hazardous Materials (classified as such on the Effective Date) existing in the Premises in violation of applicable Requirements as of the date hereof; and (s) the cost of capital improvements other than those expressly included in Operating Expenses pursuant to Section 7.1.

Governmental Authority: The United States of America, the City of Seattle, County of King, or State of Washington, or any political subdivision, agency, department, commission, board, bureau or instrumentality of any of the foregoing, now existing or hereafter created, having jurisdiction over the Real Property.

Hazardous Materials: Any substances, materials or wastes currently or in the future deemed or defined in any Requirement as "hazardous substances," "toxic substances," "contaminants," "pollutants" or words of similar import.

HVAC System: The Building System designed to provide heating, ventilation and air conditioning.

Indemnitees: Landlord, Landlord's Agent, each Mortgagee and Lessor, and each of their respective direct and indirect partners, officers, shareholders, directors, members, managers, trustees, beneficiaries, employees, principals, contractors, servants, agents, and representatives.

Lease Year: The first Lease Year shall commence on the Commencement Date and shall end on the last day of the calendar month preceding the month in which the first anniversary of the Commencement Date occurs. Each succeeding Lease Year shall commence on the day following the end of the preceding Lease Year and shall extend for 12 consecutive months; provided, however, that the last Lease Year shall expire on the Expiration Date.

Lessor: A lessor under a Superior Lease.

Losses: Any and all losses, liabilities, damages, claims, judgments, fines, suits, demands, costs, interest and expenses of any kind or nature (including reasonable attorneys' fees and disbursements) incurred in connection with any claim, proceeding or judgment and the defense thereof, and including all costs of repairing any damage to the Premises or the Building or the appurtenances of any of the foregoing to which a particular indemnity and hold harmless agreement applies.

Mortgage(s): Any mortgage, trust indenture or other financing document which may now or hereafter affect the Premises, the Real Property, the Building or any Superior Lease and the leasehold interest created thereby, and all renewals, extensions, supplements, amendments, modifications, consolidations and replacements thereof or thereto, substitutions therefor, and advances made thereunder.

Mortgagee(s): Any mortgagee, trustee or other holder of a Mortgage.

Observed Holidays: New Years Day, Martin Luther King Day, Presidents Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day, plus days observed by the State of Washington, the City of Seattle and/or the labor unions servicing the Building as holidays.

Ordinary Business Hours: 8:00 a.m. to 6:00 p.m. on Business Days.

Prohibited Use: Any use or occupancy of the Premises that in Landlord's reasonable judgment would: (a) cause damage to the Building or any equipment, facilities or other systems therein; (b) impair the appearance of the Building; (c) interfere with the efficient and economical maintenance, operation and repair of the Premises or the Building or the equipment, facilities or systems thereof; (d) adversely affect any service provided to, and/or the use and occupancy by, any Building tenant or occupants; (e) violate the certificate of occupancy issued for the Premises or the Building; (f) materially and adversely affect the first-class image of the Building or (g) result in protests or civil disorder or commotions at, or other disruptions of the normal business activities in, the Building. Prohibited Use also includes the use of any part of the Premises for: (i) a restaurant or bar; (ii) the preparation, consumption, storage, manufacture or sale of food or beverages (except in connection with vending machines (provided that each machine, where necessary, shall have a waterproof pan thereunder and be connected to a drain) and/or warming kitchens installed for the use of Tenant's employees only), liquor, tobacco or drugs; (iii) the business of photocopying, multilith or offset printing (except photocopying in connection with Tenant's own business); (iv) a school or classroom; (v) lodging or sleeping; (vi) the operation of retail facilities (meaning a business whose primary patronage arises from the generalized solicitation of the general public to visit Tenant's offices in person without a prior appointment) of a savings and loan association or retail facilities of any financial, lending, securities brokerage or investment activity; (vii) a payroll office; (viii) a barber, beauty or manicure shop; (ix) an employment agency or similar enterprise; (x) offices of any Governmental Authority, any foreign government, the United Nations, or any agency or department of the foregoing; (xi) the manufacture, retail sale, storage of merchandise or auction of merchandise, goods or property of any kind to the general public which could reasonably be expected to create a volume of pedestrian traffic substantially in excess of that normally encountered in the Premises; (xii) the rendering of medical, dental or other therapeutic or diagnostic services; or (xiii) any illegal purposes or any activity constituting a nuisance.

Requirements: All present and future laws, rules, orders, ordinances, regulations, statutes, requirements, codes and executive orders, extraordinary and ordinary of (i) all Governmental Authorities, including, without limitation, (A) the Americans With Disabilities Act, 42 U.S.C. §12101 (et seq.), and any law of like import, and all rules, regulations and government orders with respect thereto, and (B) any of the foregoing relating to Hazardous Materials, environmental matters, public health and safety matters and landmarks protection, (ii) any applicable fire rating bureau or other body exercising similar functions, affecting the Real Property or the maintenance, use or occupation thereof, or any street, avenue or sidewalk comprising a part of or in front thereof or any vault in or under the same, (iii) all requirements of all insurance bodies affecting the Premises, (iv) utility service providers, and (v) Mortgagees or Lessors. "Requirements" shall also include the terms and conditions of any certificate of occupancy issued for the Premises or the Building, and any other covenants, conditions or restrictions affecting the Building and/or the Real Property from time to time.

Rules and Regulations: The rules and regulations annexed to and made a part of this Amended and Restated Lease as **Exhibit F**, as they may be modified from time to time by Landlord.

Specialty Alterations: Alterations which are not standard office installations such as kitchens, executive bathrooms, raised computer floors, computer room installations, supplemental HVAC equipment, safe deposit boxes, vaults, libraries or file rooms requiring reinforcement of floors, internal staircases, slab penetrations, conveyors, dumbwaiters, and other Alterations of a similar character. All Specialty Alterations are Above-Building Standard Installations.

Substantial Completion: As to any construction performed by any party in the Premises, "Substantial Completion" or "Substantially Completed" means that such work has been completed, as reasonably determined by Landlord's architect, in accordance with (a) the provisions of this Amended and Restated Lease applicable thereto, (b) the plans and specifications for such work, and (c) all applicable Requirements, except for minor details of construction, decoration and mechanical adjustments, if any, the noncompletion of which does not materially interfere with Tenant's use of the Premises or which in accordance with good construction practices should be completed after the completion of other work in the Premises or Building.

Superior Lease(s): Any ground or underlying lease of the Real Property or any part thereof heretofore or hereafter made by Landlord and all renewals, extensions, supplements, amendments, modifications, consolidations, and replacements thereof.

Tenant Party: Tenant and any subtenants or occupants of the Premises and their respective agents, contractors, subcontractors, employees, invitees or licensees.

Tenant's Property: Tenant's movable fixtures and movable partitions, telephone and other equipment, computer systems, telecommunications, data and other cabling, trade fixtures, furniture, furnishings, and other items of personal property which are removable without material damage to the Building.

Unavoidable Delays: Landlord's inability to fulfill or delay in fulfilling any of its obligations under this Amended and Restated Lease expressly or impliedly to be performed by Landlord or Landlord's inability to make or delay in making any repairs, additions, alterations, improvements or decorations or Landlord's inability to supply or delay in supplying any equipment or fixtures, if Landlord's inability or delay is due to or arises by reason of strikes, labor troubles or by accident, or by any cause whatsoever beyond Landlord's reasonable control, including governmental preemption in connection with a national emergency, Requirements or shortages, or unavailability of labor, fuel, steam, water, electricity or materials, or delays caused by Tenant or other tenants, mechanical breakdown, acts of God, enemy action, civil commotion, fire or other casualty; provided, however, that such Unavoidable Delay shall last no longer than the time period and be of no greater scope than is necessary for Landlord to overcome the same with exercise of commercially reasonable efforts.

EXHIBIT C

WORKLETTER

1. Proposed and Final Plans.

(a) On or before September 30, 2009, Tenant shall cause to be prepared and delivered to Landlord, for Landlord's approval, the following proposed drawings (**"Proposed Plans")** for all improvements Tenant desires to complete or have completed in all or a portion of the Premises which portion may consist of Suite 1800, Suite 1900, Suite 2000 or Suite 2050, whether or not at such time such suite is included in the Premises (each such suite where work is to be performed is referred to as an "Applicable Suite") prior to the Suite 2050 Commencement Date (the **"Initial Installations"):**

(i) Architectural drawings (consisting of demolition plans, floor construction plan, ceiling lighting and layout, power, and telephone plan).

(ii) Mechanical drawings (consisting of HVAC, sprinkler, electrical, telephone, and plumbing). Mechanical drawings shall include a tabulation of connected electrical load and an analysis of anticipated electrical demand load.

(iii) Finish schedule (consisting of wall finishes and floor finishes and miscellaneous details).

(b) All architectural drawings shall be prepared at Tenant's sole expense by a licensed architect employed by Tenant and approved by Landlord. Tenant shall deliver two sets of reproducible architectural drawings to Landlord. All mechanical drawings shall be prepared at Tenant's sole expense by a licensed engineer designated by Landlord, whom Tenant shall employ. Tenant shall reimburse Landlord for all reasonable out-of-pocket costs incurred by Landlord in reviewing the Proposed Plans.

(c) Within 15 days after Landlord's receipt of the architectural drawings, Landlord shall approve or disapprove such drawings, and if disapproved, Landlord shall advise Tenant of any changes or additional information required to obtain Landlord's approval,

(d) Within 15 days after receipt of mechanical drawings, Landlord shall approve or disapprove such drawings, and if disapproved, Landlord shall advise Tenant of any changes required to obtain Landlord's approval.

(e) If Landlord disapproves of, or requests additional information regarding the Proposed Plans, Tenant shall, within 20 days thereafter, revise the Proposed Plans disapproved by Landlord and resubmit such plans to Landlord or otherwise provide such additional information to Landlord. Landlord shall, within 15 days after receipt of Tenant's revised plans, approve or disapprove such drawings, and if disapproved, Landlord shall advise Tenant of any additional changes which may be required to obtain Landlord's approval. If Landlord disapproves the revised plans specifying the reason therefor, or requests further additional information, Tenant shall, within 20 days of receipt of Landlord's required changes, revise such plans and resubmit them to Landlord or deliver to Landlord such further information as Landlord has requested. Landlord shall, again within 15 days after receipt of Tenant's revised plans, approve or disapprove such drawings, and if disapproved, Landlord shall advise

Tenant of further changes, if any, required for Landlord's approval. This process shall continue until Landlord has approved Tenant's revised Proposed Plans. "Final Plans" shall mean the Proposed Plans, as revised, which have been approved by Landlord and Tenant in writing. Landlord agrees not to withhold or delay its approval unreasonably so long as such initial Installations (i) are non-structural and do not affect any Building Systems, (ii) affect only the Premises (including any Applicable Suite not yet part of the Premises) and are not visible from outside of the Premises (including any Applicable Suite not yet part of the Premises), (iii) do not affect the certificate of occupancy issued for the Building or the Premises, (iv) do not violate any Requirement, and (v) utilize Building Standard (as hereafter defined) or better quality materials and finishes.

(f) Tenant may submit Proposed Plans for any Applicable Suite(s) in series or together as a complete set. If Proposed Plans for the Applicable Suites are submitted in multiple series then the procedures set forth in Sections 1(a) through (e) above shall apply to each such series. Tenant is not required to make Initial installation in each Applicable Suite and may select which Applicable Suites the Initial Installation will be performed; provided that Tenant will make Initial Installation in each of Suite 1900, Suite 2000 and Suite 2050 sufficient for Tenant to begin occupancy of such space as contemplated by the Amended and Restated Lease.

(g) All Proposed Plans and Final Plans shall comply with all applicable Requirements. Neither review nor approval by Landlord of the Proposed Plans and resulting Final Plans shall constitute a representation or warranty by Landlord that such plans either (i) are complete or suitable for their intended purpose, or (ii) comply with applicable Requirements, it being expressly agreed by Tenant that Landlord assumes no responsibility or liability whatsoever to Tenant or to any other person or entity for such completeness, suitability or compliance. Tenant shall not make any material changes in the Final Plans without Landlord's prior approval, which shall not be unreasonably withheld or delayed; provided that Landlord may, in the exercise of its sole and absolute discretion, disapprove any proposed changes adversely affecting the Building's structure, Building Systems (including intrabuilding network telephone cable), equipment or the appearance of the Building visible from outside of the Premises; provided, further, that Landlord's approval shall not be required for any changes affecting items constituting Decorative Alterations.

2. Performance of the Initial Installations.

(a) Filing of Final Plans, Permits. Tenant, at its sole cost and expense, shall file the Final Plans with the Governmental Authorities having jurisdiction over the initial Installations. Tenant shall furnish Landlord with copies of all documents submitted to all such Governmental Authorities and with the authorizations to commence work and the permits for the initial Installations issued by such Governmental Authorities. Tenant shall not commence the Initial Installations until the required governmental authorizations for such work are obtained and delivered to Landlord.

(b) Landlord Approval of Contractors. No later than 5 days following Landlord's approval of the Final Plans, Tenant shall solicit bids for construction of the Initial Installations and shall promptly thereafter enter into a contract with a general contractor selected by Tenant (the **"General Contractor"**). Tenant's construction contract with the General Contractor, including the identity of the General Contractor, shall be subject to Landlord's prior approval, which approval shall not be unreasonably withheld, conditioned or delayed. The General Contractor shall be responsible for all required construction,

management and supervision with respect to the Initial Instillation. Tenant shall cause the Initial Installation with respect to each Applicable Suite to be performed in an expeditious manner and shall be substantially completed as soon as reasonably practical. Tenant shall have the right to elect to pursue completion of the Initial Installation with respect to any Applicable Suite prior to beginning work on any other Applicable Suite, so long as work is being conducted as promptly as reasonably practical with respect to at least one Applicable Suite (with a reasonable amount of time permitted for a transition between work on Applicable Suites). In addition, Tenant shall only utilize for purposes of mechanical, electrical, structural, sprinkler, fire and life safety and those contractors as specifically designated by Landlord (collectively, the "Essential Subs"), which list of Essential Subs shall be provided no later than the time Landlord provides its first response pursuant to Section 1(c) or 1(d) and shall include 3 names each for those Essential Subs engaged in mechanical, electrical or structural contracting and 1 Essential Sub for fire alarm and life safety. Tenant shall submit to Landlord not less than 10 days prior to commencement of construction the following information and items:

(i) The names and addresses of the other subcontractors, and sub-subcontractors (collectively, together with the General Contractor and Essential Subs, the "Tenant's Contractors") Tenant intends to employ in the construction of the Initial Installations. Landlord shall have the right to approve or disapprove Tenant's Contractors, which approval shall not be unreasonably withheld, conditioned or delayed, and Tenant shall employ, as Tenant's Contractors, only those persons or entities approved by Landlord. All contractors and subcontractors engaged by or on behalf of Tenant for any Applicable Suite shall be licensed contractors, possessing good labor relations, capable of performing quality workmanship and working in harmony with Landlord's contractors and subcontractors and with other contractors and subcontractors on the job site. All work shall be coordinated with any general construction work in the Building.

(ii) The scheduled commencement date of construction, the estimated date of completion of construction work, fixturing work, and date of occupancy of the Applicable Suite, if not currently occupied by Tenant.

(iii) Itemized statement of estimated construction cost, including permits and fees, architectural, engineering, and contracting fees.

(iv) Certified copies of insurance policies or certificates of insurance as hereinafter described. Tenant shall not permit Tenant's Contractors to commence work until the required insurance has been obtained and certified copies of policies or certificates have been delivered to Landlord.

(c) Access to Premises. Tenant, its employees, designers, contractors and workmen shall have access to each Applicable Suite (including prior to the applicable Commencement Date) as provided in the Amended and Restated Lease to construct the Initial Installations, provided that Tenant and its employees, agents, contractors, and suppliers only access the Applicable Suite via the Building freight elevator, work in harmony and do not interfere with the performance of other work in the Building by Landlord, Landlord's contractors, other tenants or occupants of the Building (whether or not the terms of their respective leases have commenced) or their contractors. If at any time such entry shall cause, or in Landlord's reasonable judgment threaten to cause, such disharmony or interference, Landlord may terminate such permission upon 48 hours' notice to-Tenant, and thereupon, Tenant's agents, contractors, and suppliers causing such disharmony or interference shall immediately withdraw

from the Applicable Suite and the Building until Landlord determines such disturbance no longer exists.

(d) Landlord's Right to Perform. Landlord shall have the right, but not the obligation, to perform, on behalf of and for the account of Tenant, subject to reimbursement by Tenant, any of the Initial installations which (i) Landlord reasonably deems necessary to be done on an emergency basis for the safety or security of the Building or any tenant of the Building, (ii) pertains to structural components or the general Building Systems, or (iii) pertains to the erection of temporary safety barricades or signs during construction. Except in case of emergency, Landlord shall give at least 5 days written notice to Tenant of its intention to perform such work and shall permit Tenant to conduct such work and so long as Tenant has commenced such work and is reasonably proceeding to remedy such condition Landlord shall not perform such work pursuant to this Section 2(d).

(e) Warranties. On completion of the initial installations, Tenant shall provide Landlord with copies of all warranties of at least one year duration on all the Initial Installations. At Landlord's reasonable request, Tenant shall enforce, at Landlord's expense, ail guarantees and warranties made and/or furnished to Tenant with respect to the Initial Installations.

(f) Protection of Building. All work performed by Tenant shall be performed with a minimum of interference with other tenants and occupants of the Building and shall conform to the Rules and Regulations and those rules and regulations governing construction in the Building as Landlord or Landlord's Agent may reasonably impose. Tenant will take all reasonable and customary precautionary steps to protect its facilities and the facilities of others affected by the Initial Installations and to properly police same and Landlord shall have no responsibility for any loss by theft or otherwise. Construction equipment and materials are to be located in confined areas and delivery and loading of equipment and materials shall be done at such reasonable locations and at such time as Landlord shall reasonably direct so as not to burden the operation of the Building. Landlord shall advise Tenant in advance of any special delivery and loading dock requirements. Tenant shall at all times keep the Premises (including any Applicable Suite not yet included in the Premises but for which work has commenced) and adjacent areas free from accumulations of waste materials or rubbish caused by its suppliers, contractors or workmen. Landlord may require daily clean-up if required for fire prevention and life safety reasons or applicable laws and reserves the right to do clean-up at the expense of Tenant if Tenant fails to comply with Landlord's cleanup requirements upon 48 hours notice. At the completion of the Initial installations, Tenant's Contractors shall forthwith remove all rubbish and all tools, equipment and surplus materials from and about the Applicable Suite and Building. Any damage caused by Tenant's Contractors to any portion of the Building or to any property of Landlord or other tenants shall be repaired forthwith after written notice from Landlord to its condition prior to such damage by Tenant's Contractors at Tenant's expense.

(g) Compliance by all Tenant Contractors. Tenant shall impose and enforce all terms hereof on Tenant's Contractors and its designers, architects and engineers. Landlord shall have the right to order Tenant or any of Tenant's Contractors, designers, architects or engineers who willfully violate the provisions of this Workletter to cease work and remove himself or itself and his or its equipment and employees from the Building.

(h) Accidents, Notice to Landlord. Tenant's Contractors shall assume responsibility for the prevention of accidents to its agents and employees and shall take all

reasonable safety precautions with respect to the work to be performed and shall comply with all reasonable safety measures initiated by the Landlord and with all applicable Requirements for the safety of persons or property. Tenant shall advise the Tenant's Contractors to report to Landlord any injury to any of its agents or employees and shall furnish Landlord a copy of the accident report filed with its insurance carrier within 3 days of its occurrence.

(i) Required Insurance. Tenant shall cause Tenant's Contractors to secure, pay for, and maintain during the performance of the construction of the Initial Installations, insurance in the following minimum coverages and limits of liability:

(i) Workmen's Compensation and Employer's Liability Insurance as required by Requirements.

(ii) Commercial General Liability Insurance (including Owner's and Contractors' Protective Liability) in an amount not less than $2,000,000 per occurrence, whether involving bodily injury liability (or death resulting therefrom) or property damage liability or a combination thereof with a minimum aggregate limit of $2,000,000, and with umbrella coverage with limits not less than $10,000,000 (with respect to the General Contractor and $2,000,000 for the other Tenant Contractors). Such insurance shall provide for explosion and collapse, completed operations coverage with a two-year extension after completion of the work, and broad form blanket contractual liability coverage and shall insure Tenant's Contractors against any and all claims for bodily injury, including death resulting therefrom and damage to the property of others and arising from its operations under the contracts whether such operations are performed by Tenant's Contractors, or by anyone directly or indirectly employed by any of them.

(iii) Business Automobile Liability Insurance, including the ownership, maintenance, and operation of any automotive equipment, owned, hired, or non-owned in an amount not less than $500,000 for each person in one accident, and $1,000,000 for injuries sustained by two or more persons in any one accident and property damage liability in an amount not less than $1,000,000 for each accident. Such insurance shall insure Tenant's Contractors against any and all claims for bodily injury, including death resulting therefrom, and damage to the property of others arising from its operations under the contracts, whether such operations are performed by Tenant's Contractors, or by anyone directly or indirectly employed by any of them.

(iv) "All-risk" builder's risk insurance upon the entire Initial Installations to the full insurance value thereof. Such insurance shall include the interest of Landlord and Tenant (and their respective contractors and subcontractors of any tier to the extent of any insurable interest therein) in the Initial Installations and shall insure against the perils of fire and extended coverage and shall include "all-risk" builder's risk insurance for physical loss or damage including, without duplication of coverage, theft, vandalism, and malicious mischief. Any loss insured under such "ail-risk" builder's risk insurance is to be adjusted with Landlord and Tenant and made payable to Landlord as trustee for the insureds, as their interest may appear, subject to the agreement reached by such parties in interest, or in the absence of any such agreement, then in accordance with a final, nonappealable order of a court of competent jurisdiction. If after such loss no other special agreement is made, the decision to replace or not replace any such damaged the Initial Installations shall be made in accordance with the terms and provisions of the Amended and Restated Lease including, this Workletter. If Tenant obtains "all risk" builder's risk insurance, then the waiver of subrogation

provisions contained in the Amended and Restated Lease shall apply to such "all risk" builder's risk insurance policy.

All policies (except the Workmen's Compensation policy) shall be endorsed to include as additional named insureds Landlord and its officers, employees, and agents, Tishman Speyer Properties, L.P., any Mortgagees and Superior Lessors (to the extent Tenant has been notified by Landlord of such parties) and such additional persons as Landlord may designate. Such endorsements shall also provide that all additional insured parties shall be given 30 days' prior written notice of any reduction, cancellation, or nonrenewal of coverage by certified mail, return receipt requested (except that 10 days' notice shall be sufficient in the case of cancellation for nonpayment of premium) and shall provide that the insurance coverage afforded to the additional insured parties thereunder shall be primary to any insurance carried independently by such additional insured parties. At Tenants request, Landlord shall furnish a list of names and addresses of parties to be named as additional insureds and such list shall constitute the exclusive list of parties required to be included unless and until updated by written notice from Landlord. The insurance policies required hereunder shall be considered as the primary insurance and shall not call into contribution any insurance then maintained by Landlord. Additionally, where applicable, such policy shall contain a cross liability and severability of interest clause.

To the fullest extent permitted by law, Tenant (and Tenant's Contractors) shall indemnify and hold harmless the Indemnitees from and against all Losses necessitated by activities of the indemnifying party's contractors, bodily injury to persons or damage to property of the Indemnitees arising out of or resulting from the performance of work related to the Initial Installment by the indemnifying party or its contractors. The foregoing indemnity shall be in addition to the insurance requirements set forth above and shall not be in discharge or substitution of the same, and shall not be limited in any way by any limitations on the amount or type of damages, compensation or benefits payable by or for Tenant's Contractors under Workers' or Workmen's Compensation Acts, Disability Benefit Acts or other Employee Benefit Acts.

(j) Quality of Work. The Initial Installations shall be constructed in a first-class workmanlike manner using only good grades of material and in material compliance with the Final Plans, all insurance requirements, applicable laws and ordinances and rules and regulations of governmental departments or agencies and the rules and regulations adopted by Landlord for the Building. The quality of the Initial Installation shall be equal to or of greater quality than those Building Standard Materials and' Finishes as more particularly described on Schedule 1 attached hereto (the **"Building Standards"**); provided that Landlord shall have the right to require that Tenant not deviate from certain of the Building Standards by providing notice of such requirement prior to the adoption of the Final Plans. If Tenant requests that it not be required to install a Building Standard suspended ceiling in all or any portion of the Premises, and in lieu thereof employ an "open" ceiling, Landlord reserves the right to require that Tenant install a Building Standard ceiling upon the expiration or earlier termination of the Term; provided that Landlord shall notify Tenant of such requirement prior to the adoption of the Final Plans.

(k) "As-Built" Plans. Upon completion of the Initial Installations, Tenant shall furnish Landlord with "as built" plans and air balance reports for the Premises, final waivers of lien for the Initial Installations, a detailed breakdown of the costs of the Initial Installations (which may be in the form of an owner's affidavit) and evidence of payment reasonably satisfactory to Landlord, and an occupancy permit for the Applicable Suite. The "as-built" plans

shall be prepared on an AutoCAD Computer Assisted Drafting and Design System (or such other system or medium as Landlord may accept), using naming conventions issued by the American Institute of Architects in June, 1990 (or such other naming conventions as Landlord may accept) and computer media of such record drawings and specifications translated in DFX format or another format acceptable to Landlord.

(l) Mechanics' Liens. Tenant shall not permit any of the Tenant's Contractors to place any lien upon the Building, and if any such lien is placed upon the Building, Tenant shall within 10 days of notice thereof, cause such lien to be discharged of record, by bonding or otherwise. If Tenant shall fail to cause any such lien to be discharged, Landlord shall have the right to have such lien discharged and Landlord's expense in so doing, including bond premiums, reasonable legal fees and fifing fees, shall be immediately due and payable by Tenant.

3. Payment of Costs of the Initial Installations.

(a) Subject to Landlord's Contribution as provided in Paragraph 3(b) below, the Initial Installations shall be installed by Tenant at Tenant's sole cost and expense. The cost of the Initial Installations shall include, and Tenant agrees to pay Landlord for, the following costs (**"Landlord's Costs"**): (i) the cost of all work performed by Landlord on behalf of Tenant at Tenant's request or otherwise pursuant to this Workletter and for all materials and labor furnished on Tenant's behalf at Tenants request or otherwise pursuant lo this Workletter, (ii) the cost of any services provided to Tenant or Tenant's Contractors including but not limited to the cost for rubbish removal, hoisting, and utilities to the extent not included in general conditions charges by the general contractor, and (iii) a supervision fee equal to *2%* of the cost of the Initial Installations excluding the costs of preparing the Proposed Plans and Final Plans and any "soft costs" as defined below. Landlord may render bills to Tenant monthly for Landlord's Costs (provided that the supervision fee shall be billed based on the total cost of the Initial installations upon the completion of the last of the Initial Installations). All bills shall be due and payable no later than the 30th day after delivery of such bills to Tenant.

(b) Landlord shall pay to Tenant an amount not to exceed $779,100 (**"Landlord's Contribution"**) toward the cost of the initial Installations, provided as of the date on which Landlord is required to make payment thereof, (i) the Amended and Restated Lease is in full force and effect and (ii) no Event of Default then exists. Tenant shall pay all costs of the Initial Installations in excess of Landlord's Contribution. Landlord's Contribution shall be payable solely on account of labor directly related to the Initial Installations and materials delivered to the Premises in connection with the Initial Installations, except that Tenant may apply up to 50% of Landlord's Contribution to pay "soft costs", consisting of architectural, consulting, engineering, permitting and legal fees, and furniture and equipment (exclusive of computer equipment) acquired for use in the Premises (including any Applicable Suite not yet added to the Premises), incurred in connection with the Initial Installations. Tenant shall not be entitled to receive any portion of Landlord's Contribution not actually expended by Tenant in the performance of the Initial Installations in accordance with this Workletter, provided that Tenant have any right to apply up to one-third (1/3) of Landlord's Contribution (to the extent not used to pay for the Initial Installations) as a credit against Rent under the Amended and Restated Lease in accordance with Section 2.5 thereof. Thirty (30) days after the completion of the Initial Installations and satisfaction of the conditions set forth below, or upon the occurrence of the date which is twelve months after the Suite 2050 Commencement Date (which date shall be extended by reason of strikes, labor trouble or any other similar cause beyond Tenant's control in performing the Initial Installations), whichever first occurs, any amount of Landlord's

Contribution which has not been previously disbursed, or requested by Tenant to be disbursed in accordance with Section 3(c) or applied against Fixed Rent in accordance with Section 2.5 of the Amended and Restated Lease, shall be retained by Landlord; provided, however, that notwithstanding anything contained herein to the contrary, such retained amounts shall continue to be held for the benefit of Tenant by Landlord if Tenant delivers a notice to Landlord prior to satisfaction of the conditions set forth below that it is in dispute with any contractors, subcontractors, vendors or other providers of service and refuses to make payments at such time or if any contracts provide for retainage which has not then been finally paid.

(c) Landlord shall pay Landlord's Contribution with respect to the work done on an Applicable Suite to Tenant following commencement of Tenant's business operations at the Applicable Suite and the substantial completion of the Initial Installations for such Applicable Suite, within 30 days after submission by Tenant to Landlord of a written requisition therefor, signed by the chief financial officer of Tenant and accompanied by (i) copies of paid invoices covering all of the Initial Installations, (ii) a written certification from Tenant's architect stating that the Initial Installations described on such invoices have been completed in accordance with the Final Plans, and evidence that such work has been paid in full by Tenant and that all contractors, subcontractors and material suppliers have delivered to Tenant final, unconditional waivers and releases of lien in the form prescribed by the Requirements with respect to such work (copies of which shall be included with such architect's certification), (iii) proof of the satisfactory completion of all required inspections and the issuance of any required approvals and sign-offs by Governmental Authorities with respect thereto, (iv) final "as-built" plans and specifications for the Initial Installations as required pursuant to Section 2(k) and (v) such other documents and information as Landlord may reasonably request, including in connection with title drawdowns and endorsements.

(d) If Tenant elects to perform the Initial Installation in two or more stages, then any portion or all of the entire remaining amount of Landlord's Contribution will be made available to Tenant in connection with each such stage and for each succeeding stage until such time as the aggregate amount of Landlord's Contribution has been paid in full, after which point Tenant shall be responsible for all additional costs of completing the Initial Installation.

4. Miscellaneous.

(a) All defined terms as used herein shall have the meanings ascribed to them in the Amended and Rested Lease.

(b) Tenant agrees that, in connection with the Initial Installations and its use of any Applicable Suite prior to the related Commencement Date for such Applicable Suite, Tenant shall have those duties and obligations with respect thereto that it has pursuant to the Amended and Restated Lease during the Term, except the obligation for payment of Rent.

(c) Except as expressly set forth herein or in the Amended and Restated Lease, Landlord has no other agreement with Tenant and Landlord has no other obligation to do any other work or pay any amounts with respect to the Premises. Any other work in the Premises which may be permitted by Landlord pursuant to the terms and conditions of the Amended and Restated Lease shall be done at Tenant's sole cost and expense and in accordance with the terms and conditions of the Amended and Restated Lease.

(d) This Workletter shall not be deemed applicable to any additional space added to the original Premises at any time or from time to time, whether by any options under the Amended and Restated Lease or otherwise, or to any portion of the original Premises or any additions thereto in the event of a renewal or extension of the initial term of the Amended and Restated Lease, whether by any options under the Amended and Restated Lease or otherwise, unless expressly so provided in the Amended and Restated Lease or any amendment or supplement thereto.

(e) The failure by Tenant to pay any monies due Landlord pursuant to this Workletter within the time period herein stated shall be deemed a default under the terms of the Amended and Restated Lease for which Landlord shall be entitled to exercise all remedies available to Landlord for nonpayment of Rent. All late payments shall bear interest pursuant to Section 15.6 of the Amended and Restated Lease

EXHIBIT D

Design Standards

(a) HVAC. The Building HVAC System serving the Premises is designed to maintain average temperatures within the Premises during Ordinary Business Hours of (i) not less than 68º F. during the heating season when the outdoor temperature is 5º F. or more and (ii) not more than 78º F. and 50% humidity + 5% during the cooling season, when the outdoor temperatures are at 89º F. dry bulb and 73º F. wet bulb, with, in the case of clauses (i) and (ii), a population load per floor of not more than one person per 100 square feet of useable area, other than in dining and other special use areas per floor for all purposes, and shades fully drawn and closed, including lighting and power, and to provide at least .15 CFM of outside ventilation per square foot of rentable area. Use of the Premises, or any part thereof, in a manner exceeding the foregoing design conditions or rearrangement of partitioning after the initial preparation of the Premises which interferes with normal operation of the air-conditioning service in the Premises may require changes in the air-conditioning system serving the Premises at Tenant's expense.

(b) Electrical. The Building Electrical system serving the Premises is designed to provide:

(i) 1.5 watts per rentable square foot of high voltage (480/277 volt) connected power for lighting, and

(ii) 2.5 watts per rentable square foot of low voltage (120/208 volt) connected power for convenience receptacles.

EXHIBIT E

Cleaning Specifications

GENERAL CLEANING

NIGHTLY

General Offices:

1. All hard surfaced flooring to be swept using approved dustdown preparation.
2. Carpet sweep all carpets, moving only light furniture (desks, file cabinets, etc. not to be moved).
3. Hand dust and wipe clean all furniture, fixtures and window sills.
4. Empty all waste receptacles and remove wastepaper.
5. Wash clean all Building water fountains and coolers.
6. Sweep all private stairways.

Lavatories:

1. Sweep and wash all floors, using proper disinfectants.
2. Wash and polish all mirrors, shelves, bright work and enameled surfaces.
3. Wash and disinfect all basins, bowls and urinals.
4. Wash all toilet seats.
5. Hand dust and clean all partitions, tile walls, dispensers and receptacles in lavatories and restrooms.
6. Empty paper receptacles, fill receptacles from tenant supply and remove wastepaper.
7. Fill toilet tissue holders from tenant supply.
8. Empty and clean sanitary disposal receptacles.

WEEKLY

1. Vacuum all carpeting and rugs.
2. Dust all door louvers and other ventilating louvers within a person’s normal reach.
3. Wipe clean all brass and other bright work.

NOT MORE THAN 3 TIMES PER YEAR

High dust premises complete including the following:

1. Dust all pictures, frames, charts, graphs and similar wall hangings not reached in nightly cleaning.
2. Dust all vertical surfaces, such as walls, partitions, doors, door frames and other surfaces not reached in nightly cleaning.
3. Dust all venetian blinds.
4. Wash all windows.

EXHIBIT F

Rules and Regulations

1. Nothing shall be attached to the outside walls of the Building. Other than Building standard blinds, no curtains, blinds, shades, screens or other obstructions shall be attached to or hung in or used in connection with any exterior window or entry door of the Premises, without the prior consent of Landlord.

2. No sign, advertisement, notice or other lettering visible from the exterior of the Premises shall be exhibited, inscribed, painted or affixed to any part of the Premises without the prior written consent of Landlord. All lettering on doors shall be inscribed, painted or affixed in a size, color and style acceptable to Landlord.

3. The grills, louvers, skylights, windows and doors that reflect or admit light and/or air into the Premises or Common Areas shall not be covered or obstructed by Tenant, nor shall any articles be placed on the window sills, radiators or convectors.

4. Landlord shall have the right to prohibit any advertising by any Tenant which, in Landlord's opinion, tends to impair the reputation of the Building, and upon written notice from Landlord, Tenant shall refrain from or discontinue such advertising.

5. Common Areas shall not be obstructed or encumbered by any Tenant or used for any purposes other than ingress of egress to and from the Premises and for delivery of merchandise and equipment in a prompt and efficient manner, using elevators and passageways designated for such delivery by Landlord.

6. Except in those areas designated by Tenant as "security areas," all locks or bolts of any kind shall be operable by the Building's Master Key. No locks shall be placed upon any of the doors or windows by Tenant, nor shall any changes be made in locks or the mechanism thereof which shall make such locks inoperable by the Building's Master Key. Tenant shall, upon the termination of this Amended and Restated Lease, deliver to Landlord all keys of stores, offices and lavatories, either furnished to or otherwise procured by Tenant and in the event of the loss of any keys furnished by Landlord, Tenant shall pay to Landlord the cost thereof.

7. Tenant shall keep the entrance door to the Premises closed at all times.

8. All movement in or out of any freight, furniture, boxes, crates or any other large object or matter of any description must take place during such times and in such elevators as Landlord may prescribe. Landlord reserves the right to inspect all articles to be brought into the Building and to exclude from the Building all articles which violate any of these Rules and Regulations or this Amended and Restated Lease. Landlord may require that any person leaving the public areas of the Building with any article to submit a pass, signed by an authorized person, listing each article being removed, but the establishment and enforcement of such requirement shall not impose any responsibility on Landlord for the protection of any Tenant against the removal of property from the Premises.

9. All hand trucks shall be equipped with rubber tires, side guards and such other safeguards as Landlord may require.

10. No Tenant Party shall be permitted to have access to the Building's roof, mechanical, electrical or telephone rooms without permission from Landlord.

11. Tenant shall not permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Building by reason of noise, odors, vibrations or interfere in any way with other tenants or those having business therein.

12. Tenant shall not employ any person or persons other than the janitor of Landlord for the purpose of cleaning the Premises, unless otherwise agreed to by Landlord. Tenant shall not cause any unnecessary labor by reason of such Tenant's carelessness or indifference in the preservation of good order and cleanliness.

13. Tenant shall store all its trash and recyclables within its Premises. No material shall be disposed of which may result in a violation of any Requirement. All refuse disposal shall be made only though entryways and elevators provided for such purposes and at such times as Landlord shall designate. Tenant shall use the Building's hauler.

14. Tenant shall not deface any part of the Building. No boring, cutting or stringing of wires shall be permitted, except with prior consent of Landlord, and as Landlord may direct.

15. The water and wash closets, electrical closets, mechanical rooms, fire stairs and other plumbing fixtures shall not be used for any purposes other than those for which they were constructed and no sweepings, rubbish, rags, acids or other substances shall be deposited therein. All damages resulting from any misuse of the fixtures shall be borne by Tenant where a Tenant Party caused the same.

16. Tenant, before closing and leaving the Premises at any time, shall see that all lights, water faucets, etc. are turned off. All entrance doors in the Premises shall be kept locked by Tenant when the Premises are not in use.

17. No bicycles, in-line roller skates, vehicles or animals of any kind (except for seeing eye dogs) shall be brought into or kept by any Tenant in or about the Premises or the Building.

18. Canvassing or soliciting in the Building is prohibited.

19. Employees of Landlord or Landlord's Agent shall not perform any work or do anything outside of the regular duties, unless under special instructions from the office of Landlord or in response to any emergency condition.

20. Tenant is responsible for the delivery and pick up of all mail from the United States Post Office.

21. Landlord reserves the right to exclude from the Building during other than Ordinary Business Hours all persons who do not present a valid Building pass. Tenant shall be responsible for all persons for whom a pass shall be issued at the request of Tenant and shall be liable to Landlord for all acts of such persons.

22. Tenant shall not use the Premises for any purpose that may be dangerous to persons or property, nor shall Tenant permit in, on or about the Premises or Building items that

may be dangerous to persons or property, including, without limitation, firearms or other weapons (whether or not licensed or used by security guards) or any explosive or combustible articles or materials.

23. No smoking shall be permitted in, on or about the Premises, the Building or the Real Property.

24. Landlord shall not be responsible to Tenant or to any other person or entity for the non-observance or violation of these Rules and Regulations by any other tenant or other person or entity. Tenant shall be deemed to have read these Rules and Regulations and to have agreed to abide by them as a condition to its occupancy of the Premises.

25. The review/alteration of Tenant drawings and/or specifications by Landlord's Agent and any of its representatives is not intended to verify Tenant's engineering or design requirements and/or solutions. The review/alteration is performed to determine compatibility with the Building Systems and lease conditions. Tenant renovations must adhere to the Building's applicable Standard Operating Procedures and be compatible with all Building Systems.

MARCHEX, INC.
AMENDED AND RESTATED
2003 STOCK INCENTIVE PLAN
STOCK OPTION AGREEMENT

To: _____ (the "Optionee")

As per the general terms and conditions set forth on this Stock Option Agreement (the "Agreement"), and the Amended and Restated 2003 Stock Incentive Plan (the "Plan"), Exhibit A and Exhibit B, respectively, which may be found at http://intranet.marchex.com, you have been granted an option (the "Option") to purchase the number of shares set forth below (the "Shares") of Class B Common Stock, $.01 par value per share (the "Common Stock") of Marchex, Inc. (the "Company"), for the aggregate Purchase Price set forth below (the "Purchase Price"), with the following specific terms and conditions:

Date of Grant and Vesting Commencement Date:	_____
Exercise Price Per Share:	_____
Total Number of Shares Subject to Option:	_____
Total Purchase Price:	_____
Type of Option:	The Option shall be an incentive stock option to the extent permitted by the Internal Revenue Code of 1986, as amended, (the "Code"), and otherwise a nonqualified stock option.
Vesting Schedule:	Until otherwise terminated under the Plan or the Agreement and assuming the Optionee is employed by the Company or continues to work as a consultant for the Company on the applicable vesting date, the Shares underlying this Option shall vest in accordance with the following vesting schedule: 50% of the Shares shall vest on each of the first and second annual anniversaries of the Date of the Grant, respectively, and according to such other conditions as are set forth in your Stock Option Agreement and the Marchex Amended and Restated 2003 Stock Incentive Plan. Notwithstanding the foregoing, one hundred percent (100%) of the Shares underlying this Option to the extent not already vested as of the date of a Change of Control shall become immediately vested upon such Change of Control. For the purposes hereof, "Change of Control" shall mean the occurrence of any of the following events: (i) an acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any "Person" or "Group" (as such terms are used for the purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) immediately after which such Person or Group has Beneficial Ownership (within the meaning of Rule l3d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the combined

voting power of the Company's then-outstanding Voting Securities; provided, however, in determining whether or not a Change of Control has occurred, Voting Securities which are acquired in a "Non-Control Acquisition" (as hereinafter defined) shall not constitute an acquisition which would constitute a Change of Control. A "Non-Control Acquisition" shall mean an acquisition by (i) any employee benefit plan (or related trust) sponsored or maintained by the Company or any affiliate of the Company, (ii) the Company, (iii) any Person in connection with a Non-Control Transaction (as hereinafter defined), or (iv) any holder of the Company's Class A Common Stock as of the date hereof;

(ii) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) the consummation of:

(a) A merger, consolidation or reorganization with or into the Company or in which securities of the Company are issued, unless such merger, consolidation or reorganization is a "Non-Control Transaction". A "Non-Control Transaction" is a merger, consolidation or reorganization with or into the Company or in which securities of the Company are issued where:

A. the shareholders of the Company immediately before such merger, consolidation, or reorganization, own, directly or indirectly, at least fifty- one percent (51%) of the combined voting power of the outstanding voting securities of the corporation resulting form such merger, consolidation or reorganization (the "Surviving Corporation") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization,

B. the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least a majority of the members of the board of directors of the Surviving Corporation or a corporation owning directly or indirectly fifty-one percent (51%) or more of the Voting Securities of the Surviving Corporation, and

C. no Person or Group, other than (i) the Company, (ii) any subsidiary of the Company, (iii) any employee benefit plan (or any trust forming a part thereof) maintained by the Company

immediately prior to such merger, consolidation, or reorganization, or (iv) any holder of the Company's Class A Common Stock as of the date hereof, owns twenty percent (20%) or more of the combined voting power of the Surviving Corporation's then-outstanding voting securities; or

(b) a complete liquidation or dissolution of the Company; or

(c) the sale of disposition of all or substantially all of the assets of the Company to any Person.

Notwithstanding the foregoing, a Change of Control shall not be deemed to occur solely because any Person (the "Subject Person") acquired Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person provided that if a Change of Control would occur (but for the operation of this sentence) and after such acquisition of Voting Securities by the Company, the Subject Person becomes the Beneficial Owner of any additional Voting Securities, then a Change of Control shall occur.

Certain Additional Payments by the Company: In the event it shall be determined at any time that as a result, directly or indirectly, of any payment or distribution by the Company to or for the benefit of the Optionee, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), the Optionee would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Optionee with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Optionee shall be entitled to promptly receive from the Company an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Optionee of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, but excluding any income taxes on the Payment, the Optionee is in the same after-tax position as if no Excise Tax had been imposed upon the Optionee. The Company shall pay the Gross-Up Payment to Optionee no later than the last day of Optionee's taxable year following the taxable year in which Optionee remits the Excise Tax.

Attorney's Fees: In the event that any suit or action is instituted to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals. Except as otherwise permitted by Section 409A of the Code, any reimbursement to which Optionee is entitled pursuant to this paragraph shall (a) be paid no later than the last day of Optionee's taxable year following the taxable year in which the expense was incurred, (b) not be affected by the amount of expenses eligible for reimbursement in any other taxable year, and (c) not be subject to liquidation or exchange for another benefit.

Compliance with Section 409A:	The Company intends that income provided to Optionee pursuant to this Agreement will not be subject to taxation under Section 409A of the Code. The provisions of this Agreement shall be interpreted and construed in favor of satisfying any applicable requirements of Section 409A. However, the Company does not guarantee any particular tax effect for income provided to Optionee pursuant to this Agreement. In any event, except for the responsibility of the Company to withhold applicable income and employment taxes from compensation paid or provided to Optionee, the Company shall not be responsible for the payment of any applicable taxes incurred by Optionee on compensation paid or provided to Optionee pursuant to this Agreement.
Term/Expiration Date:	Ten (10) years from the date hereof or as set forth in Section 2.
Early Termination	As set forth in Section 2 of the Agreement (but in no event later than the Expiration Date).

By the signatures set forth below, you and the Company agree that this option is granted under and governed by the terms and conditions of this Agreement and the Plan, which is made a part of this document.

OPTIONEE:

_____
Signature

_____
Print Name

_____
Social Security Number

Date ***(Required Field)***

_____

MARCHEX, INC.

_____
Name:
Title:

Exhibit A

MARCHEX, INC.
AMENDED AND RESTATED
2003 STOCK INCENTIVE PLAN

STOCK OPTION AGREEMENT

TERMS AND CONDITIONS

The Optionee hereby accepts the Option, subject to the terms and conditions set forth in the Plan (as fully as if they were set forth herein) and to the following additional terms and conditions:

1. Grant of Option. The terms relating to this grant of this Option to purchase the Shares, including the number of shares, the purchase price, the vesting schedule and the date of grant are set forth on the cover page of this Agreement.

2. Term of Options; Exercisability.

(a) Term.

(1) The Option shall expire ten (10) years from the date of this Agreement, but shall be subject to earlier termination as herein provided.

(2) Except as otherwise provided in this Section 2, the Option shall terminate (and the right to exercise the Option shall terminate) ninety (90) days following the date the director, employment or consulting relationship terminates between the Optionee and the Company or one of its subsidiaries, or on the date on which the Option expires by its terms, whichever occurs first.

(3) If such termination is because the death of the Optionee or because the Optionee has become permanently disabled (within the meaning of Section 22(e)(3) of the Code), the Option shall terminate (and the right to exercise the Option shall terminate) one (1) year following the date the director, employment or consulting relationship is terminated, or on the date on which the Option expires by its terms, whichever occurs first.

(b) Exercisability. Except as otherwise provided in the Plan or Agreement, the Option shall be exercisable only to the extent that the Option has become vested (in accordance with the vesting schedule set forth on the cover page of this Agreement) on the date the director, employment or consulting relationship terminates between the Optionee and the Company or one of its subsidiaries.

3. Manner of Exercise of Option.

(a) To the extent that the right to exercise the Option has accrued and is in effect, the Option may be exercised in full or in part by giving written notice to the Company stating the number of Shares exercised and accompanied by payment in full for such Shares. Payment may be either wholly in cash or by check payable to the Company. Upon such exercise, delivery of a certificate for paid-up, non-assessable Shares shall be made at the principal office of the Company to the person exercising the Option, not more than thirty (30) days from the date of receipt of the notice by the Company.

(b) The Company shall at all times during the term of the Option reserve and keep available such number of Shares of its Class B Common Stock, $.01 par value per share (the

"Common Stock"), as will be sufficient to satisfy the requirements of the Option. The Optionee shall not have any of the rights of a stockholder of the Company in respect of the Shares until one or more certificates for such Shares shall be delivered to him or her upon the due exercise of the Option.

4. Non-Transferability. Except as otherwise provided in the Plan, the right of the Optionee to exercise the Option shall not be assignable or transferable by the Optionee otherwise than by will or the laws of descent and distribution and the Option shall be exercisable during the lifetime of the Optionee only by the Optionee. The Option shall be null and void and without effect upon the bankruptcy of the Optionee or upon any attempted assignment or transfer, including without limitation any purported assignment, whether voluntary or by operation of law, pledge, hypothecation or other disposition contrary to the provisions hereof, or levy of execution, attachment, divorce, trustee process or similar process, whether legal or equitable, upon the Option.

5. Intentionally Omitted.

6. Representation Letter and Investment Legend.

(a) In the event that for any reason the Shares to be issued upon exercise of the Option shall not be effectively registered under the Securities Act of 1933, as amended (the "1933 Act"), upon any date on which the Option is exercised in whole or in part, the person exercising the Option shall give a written representation to the Company in the form attached hereto as Annex A and the Company shall place an "investment legend", so-called, as described in Annex A, upon any certificate for the Shares issued by reason of such exercise.

(b) The Company shall be under no obligation to qualify Shares or to cause a registration statement or a post-effective amendment to any registration statement to be prepared for the purposes of covering the issue of Shares.

(c) In the event this Option is an "incentive stock option" as provided in Section 15 of this Agreement, in order to enable the Company to determine when it is entitled to a tax deduction upon the disposition of any Shares issued upon exercise of this Option, for the periods during which such a disposition would entitle the Company to such a deduction (generally, a disposition within two years from the date of grant of the Option or within one (1) year from the date of exercise of the Option will entitle the Company to a deduction), all stock certificates of such Shares shall be held by the Optionee in his or her name and not in the name of a broker, nominee or other person or entity, and shall bear a legend reflecting that such Shares were obtained upon exercise of an incentive stock option. The Optionee acknowledges that the Company may send a Form W-2, W-2c or substitute therefor, as appropriate, to the Optionee with respect to any income recognized by the Optionee upon a disposition of the Shares for the periods during which such a disposition would entitle the Company to such a deduction. Nothing in this Section 6(c) shall restrict the Optionee from selling, transferring or otherwise disposing of such Shares at any time, but only from holding such Shares in other than his or her own name.

7. Recapitalizations, Reorganizations, Changes in Control and the Like. Adjustments and other matters relating to recapitalizations, reorganizations, sale of the assets of the Company, changes in control and the like shall be made and determined in accordance with Section 16 of the Plan, as in effect on the date of this Agreement.

8. No Special Employment or Other Contract Rights. Nothing contained in this Agreement shall be construed or deemed by any person under any circumstances to bind the Company to continue the director, employment or consulting relationship of the Optionee for the period within which this Option may be exercised. However, during the period of the Optionee's director, employment or consulting relationship, the Optionee shall render diligently and

faithfully the services which are assigned to the Optionee from time to time by the Board of Directors or by the executive officers of the Company, provided that such services are consistent with the services usually required to be performed by the Optionee. The Optionee shall at no time take any action which directly or indirectly would be inconsistent with the best interests of the Company.

9. Withholding Taxes. Whenever Shares are to be issued upon exercise of this Option, the Company shall have the right to require the Optionee to remit to the Company an amount sufficient to satisfy all Federal, state and local withholding tax requirements prior to the delivery of any certificate or certificates for such Shares.

10. Attorneys-in-Fact. Each Optionee hereby irrevocably appoints each person who may from time to time serve as Chief Executive Officer or Treasurer of the Company as his attorney-in-fact with specific authority to execute, acknowledge, swear to, file, and deliver all consents, elections, instruments, certificates, and other documents and to take any other action requisite to carrying out the intention and purpose of this Agreement.

11. Complete Agreement. This Agreement constitutes the entire agreement and understanding of the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter, whether oral or written.

12. Amendment and Waiver. This Agreement may be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may be given, provided that the same are in writing and signed by the parties.

13. Governing Law; Successors and Assigns. This Agreement shall be governed by the internal and substantive laws of the State of Delaware without giving effect to the conflicts of laws principles thereof and, except as otherwise provided herein, shall be binding upon the heirs, personal representatives, executors, administrators, successors and assigns of the parties.

14. Notices. Any notices or other communications required to be given hereunder shall be given by hand delivery or by first class mail with all fees prepaid and addressed, if to the Company, to it at its principal place of business, Attn: General Counsel, and if to Optionee, to him, her or it at the address set forth in the signature page hereto.

15. Qualification under Section 422. Under certain circumstances, the Company may designate an option granted under the Plan to be an “incentive stock option” as defined in Section 422 of the Code. Such designation by the Company shall be set forth on the Notice. If such designation has been set forth in the Notice for the Option granted hereunder, the Optionee understands that in order to obtain the benefits of an incentive stock option under Section 421 of the Code, no sale or other disposition may be made of any Shares acquired upon exercise of the Option within the one-year period beginning on the day after the day of the transfer of such Shares to him or her, nor within the two-year period beginning on the day after the grant of the Option. If the Optionee intends to dispose or does dispose (whether by sale, gift, transfer or otherwise) of any such Shares within said periods, he or she will notify the Company within thirty (30) days after such disposition.

Exhibit 21.1

List of Subsidiaries of the Registrant

	Name	Jurisdiction
1.	Marchex Paymaster, LLC	Delaware
2.	goClick.com, Inc.	Delaware
3.	Marchex, LLC	Delaware
4.	Marchex Sales, LLC	Delaware
5.	Marchex CAH, Inc.	Delaware
6.	Marchex CA Corporation	Nova Scotia
7.	Marchex International, Ltd.	Ireland
8.	Marchex Voice Services, Inc.	Pennsylvania
9.	Marchex Europe Limited	United Kingdom
10.	Jingle Networks, Inc.	Delaware
11.	Archeo, Inc.	Delaware

The Board of Directors
Marchex, Inc.:

We consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-192891) and on Form S-8 (Nos. 333-194509, 333-194508, 333-187469, 333-116867, 333-123753, 333-132957, 333-141797, 333-149790, 333-158394, 333-165536, 333-172967, 333-180212 and 333-181327) of Marchex, Inc. of our reports dated March 10, 2015, with respect to the consolidated balance sheets of Marchex, Inc. as of December 31, 2013 and 2014, and the related consolidated statements of operations, stockholders' equity, and cash flows, for each of the years in the three-year period ended December 31, 2014, and the effectiveness of internal control over financial reporting as of December 31, 2014, which reports appear in the December 31, 2014 annual report on Form 10-K of Marchex, Inc.

/s/ KPMG LLP

Seattle, Washington
March 10, 2015

Exhibit 31(i)

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

Principal Executive Officer

I, Peter Christothoulou, 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 10, 2015

/S/ PETER CHRISTOTHOULOU

Peter Christothoulou
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31(ii)

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

Principal Financial Officer

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 10, 2015

/s/ MICHAEL A. ARENDS

Michael A. Arends
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32

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

In connection with the Annual Report on Form 10-K of Marchex, Inc. (the "Company") for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Peter Christothoulou, as Chief Executive Officer of the Company, and Michael A. Arends, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, respectively, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 10, 2015

By: /S/ PETER CHRISTOTHOULOU
Name: **Peter Christothoulou**
Title: **Chief Executive Officer**
(Principal Executive Officer)

Dated: March 10, 2015

By: /S/ MICHAEL A. ARENDS
Name: **Michael A. Arends**
Title: **Chief Financial Officer**
(Principal Financial Officer)