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

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**FORM 8-K**

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

**Date of report (Date of earliest event reported): May 27, 2005**

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**Marchex, Inc.**

(Exact name of Registrant as Specified in its Charter)

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**Delaware**  
(State or other jurisdiction  
of incorporation)

**000-50658**  
(Commission File Number)

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

**413 Pine Street  
Suite 500  
Seattle, Washington 98101**  
(Address of Principal Executive Offices)

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

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Check the appropriate box if the Form 8-K filing is intended to simultaneously satisfy the reporting obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act
  - Soliciting material pursuant to Rule 14a-12 of the Exchange Act
  - Pre-commencement communications pursuant to Rule 14d-2(b) Exchange Act
  - Pre-commencement communications pursuant to Rule 13e-4(c) Exchange Act
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**Item 8.01 Other Events.**

In connection with the acquisition by Marchex, Inc. ("Marchex") of certain assets of Name Development Ltd. ("Name Development"), Marchex filed certain unaudited condensed financial statements of Name Development and certain unaudited pro forma condensed consolidated financial statements of Marchex as part of Marchex's filing of a Registration Statement on Form SB-2 (File No. 333-121213) with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"), on December 13, 2004, as amended by Amendment No. 1 filed with the Commission on January 11, 2005 and Amendment No. 2 filed with the Commission on February 4, 2005 and Marchex's filing of a Registration Statement on Form SB-2 (File No. 333-122651) with the Commission under the Act on February 9, 2005. Additional information regarding the acquisition can be found in Marchex's Current Report on Form 8-K dated November 19, 2004 and furnished and/or filed with the Commission on November 23, 2004 and Marchex's Current Report on Form 8-K dated February 9, 2005 and furnished and/or filed with the Commission on February 15, 2005; provided, however, that Marchex does not incorporate by reference any information contained in, or exhibits submitted on, a Current Report on Form 8-K that was expressly furnished and not filed.

Attached hereto as Exhibit 99.1, and incorporated herein by reference, are certain unaudited condensed financial statements of Name Development and certain unaudited pro forma condensed financial statements of Marchex relative to the acquisition of certain assets of Name Development.

**Item 9.01 Financial Statements and Exhibits.****(c) Exhibits.**

<u>Exhibit No.</u>	<u>Description</u>
99.1	Unaudited condensed financial statements of Name Development Ltd. as of December 31, 2004 and for the six months ended December 31, 2003 and 2004.
99.2	Marchex, Inc. unaudited pro forma condensed consolidated financial statements for the year ended December 31, 2004 and for the three months ended March 31, 2005.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Current Report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: May 27, 2005

MARCHEX, INC.

By: /s/ Russell C. Horowitz

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Name: Russell C. Horowitz

Title: Chairman and Chief Executive Officer

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**EXHIBIT INDEX**

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**NAME DEVELOPMENT LTD.**

Condensed Financial Statements

June 30, 2004 and December 31, 2004

(Unaudited)

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**NAME DEVELOPMENT LTD.**

Condensed Financial Statements (Unaudited)

June 30, 2004 and December 31, 2004

**Table of Contents**

	<b>Page</b>
Condensed Balance Sheets	1
Condensed Statements of Operations	2
Condensed Statements of Stockholder's Equity (Deficit)	3
Condensed Statements of Cash Flows	4
Notes to Condensed Financial Statements	5

**NAME DEVELOPMENT LTD.**

Condensed Balance Sheets

(Unaudited)

	<u>June 30, 2004</u>	<u>December 31, 2004</u>
<b>Assets</b>		
Current assets:		
Cash	\$4,269,497	10,358,297
Trade accounts receivable	3,397,683	3,441,182
Other receivables	255,230	22,639
Prepaid expenses, net	209,236	338,726
Other current assets	220,573	115,948
	<hr/>	<hr/>
Total current assets	8,352,219	14,276,792
	<hr/>	<hr/>
Intangible assets, net	1,594,511	1,260,925
Security deposits	27,000	27,000
	<hr/>	<hr/>
Total other assets	1,621,511	1,287,925
	<hr/>	<hr/>
Total assets	\$9,973,730	15,564,717
	<hr/>	<hr/>
<b>Liabilities and Stockholder's Equity</b>		
Current liabilities:		
Accounts payable	\$ 9,178	16,396
Accrued expenses, including related party	216,831	382,595
Income taxes	4,412,685	5,261,835
	<hr/>	<hr/>
Total liabilities	4,638,694	5,660,826
	<hr/>	<hr/>
Class C redeemable preferred stock, \$1.00 par value, 300,000,000 authorized and 177,636,966 shares outstanding	—	177,636,966
Stockholder's equity (deficit):		
Common stock, \$1.00 par value, 50,000 shares authorized and outstanding	50,000	—
Class A common stock, \$1.00 par value, 100 shares authorized and 1 share outstanding	—	1
Class B common stock, \$1.00 par value, 100 shares authorized and 1 share outstanding	—	1
Retained earnings (accumulated deficit)	5,285,036	(167,733,077)
	<hr/>	<hr/>
Total stockholder's equity (deficit)	5,335,036	(167,733,075)
	<hr/>	<hr/>
Total liabilities and stockholder's equity (deficit)	\$9,973,730	15,564,717
	<hr/>	<hr/>

See accompanying notes to condensed financial statements.

**NAME DEVELOPMENT LTD.**  
Condensed Statements of Operations  
Six months ended December 31, 2003 and 2004 (Unaudited)

	<u>2003</u>	<u>2004</u>
Revenue	\$ 2,561,447	10,697,919
Operating expenses:		
Service costs	660,284	876,230
General and administrative	31,342	1,324,271
Total operating expenses	<u>691,626</u>	<u>2,200,501</u>
Gain on sales of intangible assets, net	504,041	401,387
Income from operations	<u>2,373,862</u>	<u>8,898,805</u>
Other income, net	94	19,198
Income before provision for income taxes	<u>2,373,956</u>	<u>8,918,003</u>
Income tax expense	216,633	849,150
Net income	<u>\$ 2,157,323</u>	<u>8,068,853</u>

See accompanying notes to condensed financial statements.



**NAME DEVELOPMENT LTD.**

## Condensed Statements of Stockholder's Equity (Deficit)

(Unaudited)

	Common stock		Retained Earnings (accumulated deficit)	Total stockholder's equity (deficit)
	Shares	Amount		
Balances at June 30, 2004	50,000	\$ 50,000	5,285,036	5,335,036
Dividend distribution to stockholder			(3,500,000)	(3,500,000)
Issuance of Class A common stock	1	1		1
Issuance of Class B common stock	1	1		1
Cancellation of common stock	(50,000)	(50,000)		(50,000)
Deemed dividend of redemption value of Class C redeemable preferred stock			(177,586,966)	(177,586,966)
Net income			8,068,853	8,068,853
Balances at December 31, 2004	2	\$ 2	(167,733,077)	(167,733,075)

See accompanying notes to condensed financial statements.

**NAME DEVELOPMENT LTD.**

Condensed Statements of Cash Flows

Six months ended December 31, 2003 and 2004 (Unaudited)

	2003	2004
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,157,323	8,068,853
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Gain on sale of intangible assets	(504,041)	(401,387)
Amortization of intangible assets	297,680	452,725
Impairment loss on intangible assets	53,682	36,194
<b>Changes in operating assets and liabilities:</b>		
Trade accounts receivable	(167,424)	(43,499)
Prepaid expenses, other current assets, and security deposits	152,452	(5,554)
Accounts payable	1,627	8,818
Accrued expenses, including related party	79,979	165,764
Income taxes	216,633	849,150
<b>Net cash provided by operating activities</b>	<b>2,287,911</b>	<b>9,131,064</b>
<b>Cash flows from investing activities:</b>		
Proceeds from the sale of intangible assets	469,604	644,030
Purchase of intangible assets	(683,399)	(186,296)
<b>Net cash provided by (used in) investing activities</b>	<b>(213,795)</b>	<b>457,734</b>
<b>Cash flows from financing activities:</b>		
Proceeds from the issuance of common stock	—	2
Dividends paid to stockholder	(1,700,000)	(3,500,000)
<b>Net cash used in financing activities</b>	<b>(1,700,000)</b>	<b>(3,499,998)</b>
<b>Net increase in cash</b>	<b>374,116</b>	<b>6,088,800</b>
Cash at beginning of period	1,399,452	4,269,497
Cash at end of period	\$ 1,773,568	10,358,297
<b>Supplemental disclosure of noncash investing and financing activities:</b>		
Issuance of class C Preferred Stock	\$ —	177,636,966

See accompanying notes to condensed financial statements.

**NAME DEVELOPMENT LTD.**

Notes to Condensed Financial Statements (Unaudited)

June 30, 2004 and December 31, 2004

**(1) Description of Business and Basis of Presentation**

Name Development Ltd. (Company or Name Development) based in the British Virgin Islands, was formed in July 2000. Name Development is principally involved in the field of direct navigation. Direct navigation is one of the methods that online consumers use to search for information, products or services online. Direct navigation is primarily characterized by online users directly accessing a Web site by typing descriptive keywords or keyword strings into the uniform resource locator, or URL, address box of an Internet browser and by accessing bookmarked pages. To a lesser extent, it can also include navigating through referring or partner traffic sources. Name Development owns and maintains a portfolio of Internet domains, or Web properties, that are reflective of online user search terms, descriptive keywords and keyword strings. The Company has entered into agreements with advertising service providers to monetize its online user traffic, generated through direct navigation means, with pay-per-click listings. As such, the Company is able to facilitate the introduction of online users searching for specific information with targeted advertiser results.

The accompanying unaudited condensed consolidated financial statements of Name Development have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the six months ended December 31, 2004 are not necessarily indicative of the results that may be expected for the year ending June 30, 2005 or for any other period. The balance sheet at June 30, 2004 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These financial statements and notes should be read with the financial statements and notes thereto of Name Development Ltd. for the year ended June 30, 2004 included in Marchex, Inc.'s Form SB-2 dated February 3, 2005 filed with the Securities and Exchange Commission.

The Company's functional currency is the U.S. dollar.

**(2) Significant Accounting Policies**

The Company's significant accounting policies are disclosed in the financial statements for the year ended June 30, 2004. The Company's significant accounting policies have not materially changed during the six months ended December 31, 2004.

**(3) Concentrations**

Primarily all of the Company's cash at June 30, 2004, was held in bank deposit accounts with an Asia-Pacific financial institution. At December 31, 2004, sixty percent and forty percent of the Company's cash was in bank deposit accounts with Asia-Pacific and European financial institutions, respectively.

Trade accounts receivable are recorded at contractual revenue sharing amounts due primarily from North-American based advertising services partners and do not bear interest. Other receivables relate to the sale of domain name intangible assets and are recorded at the agreed sales price. The buyer generally deposits the sales proceeds with an escrow company or agent that closes the sale on behalf of the Company.

**NAME DEVELOPMENT LTD.**

Notes to Condensed Financial Statements (Unaudited)

June 30, 2004 and December 31, 2004

The percentage of revenue earned from advertising service partners representing more than 10% of revenue is as follows:

	Six months ended December 31,	
	2003	2004
Advertising services partner A	83%	0%
Advertising services partner B	17%	100%

Accounts receivable from these advertising services partners are as follows:

	June 30, 2004	December 31, 2004
Advertising services partner B	\$3,397,083	3,440,782

**(4) Related Party Transactions**

In June 2002, the Company's sole director appointed three corporate director companies as directors of the Company. These corporate director companies are affiliated with a trust company (Trust Company) that provides trust management services to the Company's sole beneficial shareholder, a trust established for the purposes of holding the stock of the Company. These four directors exercise management and corporate oversight responsibilities. The Trust Company also provides certain administrative services to the Company. The Company paid the Trust Company compensation for administrative services of \$13,606 and \$265,177 in the six months ended December 31, 2003 and 2004, respectively

On October 8, 2004, the existing directors resigned and the sole nominee shareholder appointed a sole director, who is an employee of the Trust Company, to direct and manage the Company's corporate actions. Subsequent to this date and prior to January 12, 2005, all corporate actions were approved by the sole director. On January 12, 2005, the sole director consented to the appointment of another individual as a director. Subsequent to this date, all corporate actions were approved by the two directors.

The Company has engaged a consultant to provide technical services related to the e-commerce activities of the Company. The consultant is one of the parties with a beneficial interest in the trust that holds the stock of the Company. The Company has accrued consulting expenses of approximately \$60,000 and \$72,655 in the six months ended December 31, 2003 and 2004, respectively, pursuant to agreements that were memorialized in 2004. As of June 30, 2004 and December 31, 2004, \$210,000 and \$0, respectively, is recorded as an accrued liability to the consultant, which is included as accrued expenses on the balance sheets.

**NAME DEVELOPMENT LTD.**

Notes to Condensed Financial Statements (Unaudited)

June 30, 2004 and December 31, 2004

**(5) Intangible Assets**

Intangible assets consist of the following:

	<u>June 30, 2004</u>	<u>December 31, 2004</u>
Internet domain names	\$ 2,720,169	2,788,179
Less accumulated amortization	1,125,658	1,527,254
<b>Intangible assets, net</b>	<b>\$ 1,594,511</b>	<b>1,260,925</b>

Amortization expense incurred by the Company was approximately \$298,000 and \$453,000 for the six months ended December 31, 2003 and 2004, respectively, and has been recorded in service costs in the condensed statements of operations.

**(6) Redeemable Preferred Stock and Stockholder's Equity**

On September 28, 2004 the Company completed a share recapitalization, which established three classes of stock; (a) 100 voting, nonparticipating Class A Common shares, (b) 100 nonvoting, participating Class B Common shares, and (c) 300,000,000 voting, nonparticipating, redeemable Class C Preferred shares. The sole stockholder of the Company exchanged all 50,000 common shares outstanding for 177,636,966 Class C Preferred shares and separately subscribed for one share of Class A Common stock and one share of Class B Common stock.

The Class C Preferred shares are redeemable at the option of the Company or the holder at any time for \$1.00 per Class C Preferred share and the holder is entitled to one vote per each Class C Preferred share held. The redemption value of the Class C Preferred shares at the date of the recapitalization was \$177.6 million.

As of June 30, 2004, the Company's authorized and outstanding capital was made up of 50,000 shares of common stock, with one vote per share, which were held by a single stockholder.

During the six months ended December 31, 2003, there were three corporate directors appointed by the sole nominee shareholder. Corporate actions during these periods were approved by a majority of the duly appointed directors.

**(7) Subsequent Event**

On November 19, 2004, Marchex, Inc. (Marchex) and the Company entered into a definitive agreement for Marchex to purchase certain identified assets of the Company for \$164.2 million. The agreement provides for consideration consisting of \$155.2 million in cash and \$9 million in common stock of Marchex. On February 14, 2005, Marchex completed the acquisition of all the operating assets of the business, excluding cash, accounts receivable and the Company's name.

**MARCHEX, INC.****UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****goClick Acquisition**

On July 27, 2004, Marchex, Inc. ("Company") acquired 100% of the outstanding stock of goClick.com, Inc., a Norwalk, Connecticut-based company. The purchase price consideration consisted of cash and acquisition costs of approximately \$7.5 million, net of cash acquired and 433,541 shares of Class B common stock. The shares of Class B common stock were valued at \$9.55 per share (for accounting purposes) for an aggregate amount of \$4.1 million.

For the period from July 27, 2004 through March 31, 2005, all goodwill, identifiable intangible assets and resulting liabilities, from the goClick acquisition have been recorded in the consolidated financial statements of the Company.

**Name Development Acquisition**

On February 14, 2005, the Company acquired substantially all of the assets of Name Development Ltd., a corporation operating in the direct navigation market. The purchase price consideration consisted of cash and acquisition costs of \$155.6 million and 419,659 shares of Class B common stock. The shares of Class B common stock were valued at \$20.99 per share (for accounting purposes) for an aggregate amount of \$8.8 million.

The asset purchase agreement contained customary representations and warranties and required Name Development's sole stockholder to indemnify the Company for various liabilities arising under the agreement, subject to various limitations and conditions. At the closing, the Company deposited into escrow for the benefit of the sole stockholder for a period of eighteen months from the closing an amount of cash equal to \$24.6 million to secure the sole stockholder's indemnification and other obligations under the asset purchase agreement, which is included in the above total purchase price consideration.

The acquisition was contingent on customary closing conditions, including the closing by the Company of financing sufficient to consummate such acquisition.

The estimated fair values of assets acquired are based upon preliminary estimates and may not be indicative of the final allocation of the purchase price consideration.

**Pro Forma Financial Information**

The following unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2004 and the quarter ended March 31, 2005 give effect to the Company's acquisition of goClick and the acquisition of substantially all of the assets of Name Development as if they had occurred on January 1, 2004.

The unaudited pro forma condensed consolidated statements of operations for the period ended December 31, 2004 are based upon the historical results of operation for the Company and its subsidiaries for the year ended December 31, 2004, for goClick for the period of January 1, 2004 through July 26, 2004 and for Name Development for the year ended December 31, 2004. The unaudited pro forma condensed consolidated statements of operations for the quarter ended March 31, 2005 are based upon the historical results of operations of the Company and its subsidiaries for the quarter ended March 31, 2005 and of Name Development for the period of January 1, 2005 through February 13, 2005. The unaudited pro forma condensed consolidated statements of operations and the accompanying notes should be read in conjunction with the historical financial statements and notes thereto of the Company, goClick and Name Development. In addition, for purposes of the following tables, we have assumed an offering of only that number of shares of Class B common stock and preferred stock as necessary to consummate the Name Development asset acquisition for the year ended December 31, 2004 and for the period of January 1, 2005 through February 13, 2005.

The unaudited pro forma condensed consolidated financial information is intended for illustrative purposes only and is not necessarily indicative of the combined results that would have occurred had the acquisitions taken place on January 1, 2004, nor is it necessarily indicative of results that may occur in the future.

MARCHEX, INC.  
Unaudited Pro Forma Condensed Consolidated Statements of Operations  
For the year ended December 31, 2004

	Marchex, Inc.	goClick Period from January 1, 2004 to July 26, 2004	Pro Forma Adjustments	Pro Forma Marchex and goClick Acquisition	Name Development Asset Acquisition	Pro Forma Adjustments	Pro Forma Offering	Pro Forma Marchex and Acquisitions and Offering
Revenue	\$43,804,272	\$ 3,769,347	\$ (17,818)(a)	\$47,555,801	\$20,667,254			\$ 68,223,055
Expenses:								
Service costs (1)	27,449,938	2,347,988	(17,818)(a)	29,780,108	1,675,422	(757,957)(d)		30,697,573
Sales and marketing (1)	4,414,043	20,453		4,434,496	—			4,434,496
Product development (1)	2,291,430	96,742		2,388,172	—			2,388,172
General and administrative (1)	4,111,544	32,508		4,144,052	1,363,996			5,508,048
Acquisition-related retention consideration (2)	499,080	—		499,080	—			499,080
Facility relocation	199,960	—		199,960	—			199,960
Stock-based compensation (3)	890,520	—		890,520	—			890,520
Amortization of intangible assets from acquisitions (4)	4,965,503	—	1,170,179(b)	6,135,682	—	13,673,294(d)		19,808,976
Total operating expenses	44,822,018	2,497,691	1,152,361	48,472,070	3,039,418	12,915,337	—	64,426,825
Gain on sale of intangible assets, net	—	—		—	1,532,664	—		1,532,664
Income (loss) from operations	(1,017,746)	1,271,656	(1,170,179)	(916,269)	19,160,500	(12,915,337)	—	5,328,894
Other income (expense)								
Interest income	265,354	5,496		270,850	20,732			291,582
Interest expense	(5,654)	—		(5,654)	—			(5,654)
Adjustment to fair value of redemption obligation	55,250	—		55,250	—			55,250
Other	3,644	—		3,644	(989)			2,655
Total other income	318,594	5,496	—	324,090	19,743	—	—	343,833
Income (loss) before provision for income taxes	(699,152)	1,277,152	(1,170,179)	(592,179)	19,180,243	(12,915,337)	—	5,672,727
Income tax expense (benefit)	33,941	—	41,620(c)	75,561	1,794,093	586,655(e)		2,456,308
Net income (loss)	(733,093)	1,277,152	(1,211,799)	(667,740)	17,386,150	(13,501,992)	—	3,216,418
Accrual of convertible preferred stock dividends	—	—		—	—		2,375,000(g)	2,375,000
Accretion of redemption value of redeemable convertible preferred stock	420,430	—		420,430	—		—	420,430
Net Income (loss) applicable to common stockholders	\$ (1,153,523)	\$ 1,277,152	\$ (1,211,799)	\$ (1,088,170)	\$17,386,150	\$ (13,501,992)	\$ (2,375,000)	\$ 420,988
Basic net income (loss) per share applicable to common stockholders	\$ (0.05)			\$ (0.05)				\$ 0.01
Shares used to calculate basic net income (loss) per share	22,087,503		247,059(f)	22,334,562		419,659(f)	5,673,169(f)	28,427,390
Adjusted pro forma basic net income (loss) per share applicable to common stockholders	\$ (0.05)			\$ (0.05)				\$ 0.01

Shares used to calculate adjusted pro forma basic net income (loss) per share	22,087,503	1,750,098(f) 247,059(f)	24,084,660	419,659(f)	5,673,169(f)	30,177,488
Diluted net income (loss) per share applicable to common stockholders	\$ (0.05)		\$ (0.05)			\$ 0.01
Shares used to calculate diluted net income (loss) per share	22,087,503	247,059(f)	22,334,562	1,786,727(f) 419,659(f)	5,673,169(f)	30,214,117
Adjusted pro forma diluted net income (loss) per share applicable to common stockholders	\$ (0.05)		\$ (0.05)			\$ 0.01
Shares used to calculate adjusted pro forma diluted net income (loss) per share	22,087,503	1,750,098(f) 247,059(f)	24,084,660	1,786,727(f) 419,659(f)	5,673,169(f)	31,964,215

(1) Excludes acquisition-related retention consideration, stock-based compensation and amortization of intangibles.

(2) Components of acquisition-related consideration

Service costs	116,585		116,585			116,585
Sales and marketing	204,528		204,528			204,528
Product development	135,947		135,947			135,947
General and administrative	42,020		42,020			42,020

(3) Components of stock-based compensation

Service costs	10,800		10,800			10,800
Sales and marketing	155,734		155,734			155,734
Product development	59,883		59,883			59,883
General and administrative	664,103		664,103			664,103

(4) Components of amortization of intangible assets

Service costs	3,520,878	771,254	4,292,132	10,823,294		15,115,426
Sales and marketing	701,077	142,473	843,550	—		843,550
General and administrative	743,548	256,452	1,000,000	2,850,000		3,850,000

See notes to unaudited pro forma condensed consolidated statements.



MARCHEX, INC.  
Unaudited Pro Forma Condensed Consolidated Statements of Operations  
For the quarter ended March 31, 2005

	Marchex, Inc.	Pro forma Adjustments	Pro Forma Marchex	Name Development Asset Acquisition	Pro Forma Adjustments	Pro Forma Offering	Pro Forma Marchex and Acquisition and Offering
Revenue	\$ 18,395,983		\$ 18,395,983	\$ 2,544,459			\$ 20,940,442
<b>Expenses:</b>							
Service costs (1)	10,668,907		10,668,907	216,185	(191,540)(d)		10,693,552
Sales and marketing (1)	1,324,986		1,324,986				1,324,986
Product development (1)	774,549		774,549				774,549
General and administrative (1)	1,452,034		1,452,034	134,158			1,586,192
Acquisition-related retention consideration (2)	—		—				—
Facility relocation	—		—				—
Stock-based compensation (3)	146,538		146,538				146,538
Amortization of intangible assets (4)	3,083,157	(275,000)(b)	2,808,157		1,681,876(d)		4,490,033
<b>Total operating expenses</b>	<b>17,450,171</b>	<b>(275,000)</b>	<b>17,175,171</b>	<b>350,343</b>	<b>1,490,336</b>	<b>—</b>	<b>19,015,850</b>
Gain on sale of intangible assets, net	—		—	29,486	—		29,486
<b>Income (loss) from operations</b>	<b>945,812</b>	<b>275,000</b>	<b>1,220,812</b>	<b>2,223,602</b>	<b>(1,490,336)</b>	<b>—</b>	<b>1,954,078</b>
<b>Other income (expense)</b>							
Interest income	268,383		268,383	7,957			276,340
Interest expense	(1,861)		(1,861)				(1,861)
Other	4,000		4,000	(295)			3,705
<b>Total other income</b>	<b>270,523</b>	<b>—</b>	<b>270,523</b>	<b>7,662</b>	<b>—</b>	<b>—</b>	<b>278,185</b>
<b>Income (loss) before provision for income taxes</b>	<b>1,216,335</b>	<b>275,000</b>	<b>1,491,335</b>	<b>2,231,264</b>	<b>(1,490,336)</b>	<b>—</b>	<b>2,232,263</b>
Income tax expense (benefit)	478,933	107,112(c)	586,045	211,479	70,074(e)		867,598
<b>Net income (loss)</b>	<b>737,402</b>	<b>167,887</b>	<b>905,289</b>	<b>2,019,785</b>	<b>(1,560,409)</b>	<b>—</b>	<b>1,364,665</b>
Convertible preferred stock dividends	348,993		348,993	—	—	282,361(g)	631,354
<b>Net Income (loss) applicable to common stockholders</b>	<b>\$ 388,409</b>	<b>\$ 167,887</b>	<b>\$ 556,296</b>	<b>\$ 2,019,785</b>	<b>\$ (1,560,409)</b>	<b>\$ (282,361)</b>	<b>\$ 733,311</b>
<b>Basic net income per share applicable to common stockholders</b>	<b>\$ 0.01</b>		<b>\$ 0.02</b>				<b>\$ 0.02</b>
Shares used to calculate basic net income per share	30,245,678		30,245,678		209,829(f)	2,836,585(f)	33,292,092
<b>Adjusted pro forma basic net income per share applicable to common stockholders</b>	<b>\$ 0.01</b>		<b>\$ 0.02</b>				<b>\$ 0.02</b>
Shares used to calculate adjusted pro forma basic net income per share	30,245,678		30,245,678		209,829(f)	2,836,585(f)	33,292,092
<b>Diluted net income per share applicable to common stockholders</b>	<b>\$ 0.01</b>		<b>\$ 0.02</b>				<b>\$ 0.02</b>
Shares used to calculate diluted net income per share	32,920,472		32,920,472		209,829(f)	2,836,585(f)	35,966,886
<b>Adjusted pro forma diluted net income per share applicable to common stockholders</b>	<b>\$ 0.01</b>		<b>\$ 0.02</b>				<b>\$ 0.02</b>
Shares used to calculate adjusted pro forma diluted net income per share	32,920,472		32,920,472		209,829(f)	2,836,585(f)	35,966,886

(1) Excludes acquisition-related retention consideration, stock-based compensation and amortization of intangibles.

(2) Components of acquisition-related consideration

Service costs	—	—	—	—
Sales and marketing	—	—	—	—
Product development	—	—	—	—
General and administrative	—	—	—	—

(3) Components of stock-based compensation

Service costs	1,800	1,800	—	1,800
Sales and marketing	29,507	29,507	—	29,507
Product development	10,665	10,665	—	10,665
General and administrative	104,566	104,566	—	104,566

(4) Components of amortization of intangible assets

Service costs	2,393,425	(275,000)	2,118,425	1,334,108	3,452,533
Sales and marketing	120,833	—	120,833	—	120,833
General and administrative	568,899	—	568,899	347,768	916,667

See notes to unaudited pro forma condensed consolidated statements.

## Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

**Pro Forma Adjustments*****Pro Forma Adjustments for goClick***

- (a) Represents the elimination of the intercompany revenue and related service costs on sales between goClick and the Company during the period prior to the acquisition of goClick.
- (b) Represents the amortization of identifiable intangible assets associated with Company's acquisition of goClick, which are amortized over their useful lives ranging from 12 to 36 months. Amortization totals \$2.1 million in the first 12 months and \$2.3 million in the first 15 months following the acquisition. The Company, for the period of July 27, 2004 to December 31, 2004 and for the period January 1, 2005 to March 31, 2005, recorded approximately \$883,000 and \$513,000 of amortization related to the above-noted intangible assets, respectively.
- (c) Represents the pro forma income tax expense as though goClick was taxed as a C-corporation for the periods presented using the federal and state statutory tax rates. Prior to the Company's acquisition, goClick was an S-corporation, whereby shareholders were taxed on their portion of goClick's taxable income.

***Pro Forma Adjustments for Name Development***

- (d) Represents the amortization of identifiable intangible assets associated with the Name Development asset acquisition, which are amortized over their useful lives ranging from 12 to 84 months. Amortization totals \$13.7 million in the first twelve months and \$17.0 million in the first 15 months following the acquisition. Name Development, for the year ended December 31, 2004 and for the period January 1, 2005 to February 13, 2005, recorded approximately \$758,000 and \$191,000, respectively, of amortization included in service costs related to the above-noted intangible assets. The Company, for the period February 14, 2005 to March 31, 2005, recorded approximately \$1.7 million of amortization related to the above-noted intangible assets.
- (e) Represents pro forma income tax expense as though Name Development was taxed as a C corporation for the periods presented with an effective federal and state combined rate of 38%. Name Development is organized under the corporate laws of the British Virgin Islands and is not subject to income tax in the British Virgin Islands. Name Development had e-commerce activities in several other governmental jurisdictions and as such, had recognized a provision for taxes in these foreign jurisdictions.

***Pro Forma Adjustments for Earnings (Loss) per Share***

- (f) The following is a reconciliation of shares used to compute the historical basic and diluted net income (loss) per share to pro forma basic and diluted net income (loss) per share and to shares used to compute adjusted pro forma basic and diluted net income (loss) per share for the year ended December 31, 2004 and the quarter ended March 31, 2005. The adjusted proforma basic and diluted net income (loss) per share assumes the effect of the conversion of the Company's 6,724,063 shares of Series A redeemable convertible preferred stock at the original issuance date. Potentially dilutive securities were not included in the computations when their effects would be anti-dilutive.



MARCHEX, INC.

Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

which resulted in net offering proceeds of \$174.1 million. The actual number of shares from the actual common stock offering for the period from February 14, 2005 to March 31, 2005 are included in the calculation for the quarter ended March 31, 2005.

- preferred stock issued as part of the follow-on offering including the exercise of the over allotment by the Company's underwriters resulted in net offering proceeds of \$55.3 million. The shares of Class B common stock which could be issued upon the conversion of all shares of preferred stock have not been included as their effect would be anti-dilutive.

**Pro Forma Adjustments for Offering**

- (g) Represents preferred stock dividends related to the preferred stock financing associated with the follow-on offering. Based upon a preferred stock offering of 200,000 shares at \$250 per share and a 4.75% dividend rate, the accrual of the convertible preferred dividend for the year ended December 31, 2004 would be approximately \$2.4 million. The accrual of the convertible preferred dividend for the quarter ended March 31, 2005 would be approximately \$594,000. On February 22, 2005, the Company's underwriters exercised the over allotment of 30,000 preferred shares. From the period February 22, 2005 to March 31, 2005, an additional actual accrual of preferred dividends of \$38,000 was recorded. The Company for the quarter ended March 31, 2005 recorded approximately \$349,000 of preferred stock dividends related to the above-noted preferred stock offering on an actual basis.

**Other information**

The terms of the preferred stock contain an exchange right, at the Company's option, to convert the preferred stock into a convertible debenture. This embedded derivative would be reflected as an asset, if there is any value ascribed to it, and is subject to variable accounting. The right will be marked to market at each reporting date until such time as the right is exercised or expires. Based on a variety of factors including the assessed probability of exercise, no value has been ascribed to this right. No adjustment for possible changes in the value of the redemption right has been reflected in the accompanying pro forma statements.

The estimated amortization relating to actual intangible assets recorded as of March 31, 2005 for the period of April to December 2005 and the next 3 years and thereafter is as follows:

	Period of April 1 to December 31, 2005	2006	2007	2008	thereafter	Total
Enhance Interactive	\$ 1,148,476	\$ 82,794	\$ —	\$ —	\$ —	\$ 1,231,270
TrafficLeader	265,000	226,848	—	—	—	491,848
goClick	1,066,882	652,258	144,373	—	—	1,863,513
Name Development	10,254,971	13,501,073	10,974,238	9,762,650	7,999,652	52,492,584
	<u>\$ 12,735,329</u>	<u>\$ 14,462,973</u>	<u>\$ 11,118,611</u>	<u>\$ 9,762,650</u>	<u>\$ 7,999,652</u>	<u>\$ 56,079,215</u>