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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, 2011

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 $183,870,541 as of June 30, 2011 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 9,570,382 shares of the registrant's Class A common stock issued and outstanding as of March 7, 2012 and 27,594,701 shares of the registrant's Class B common stock issued and outstanding as of March 7, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2012 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. Discussions containing forward-looking statements may be found in the materials set forth under "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in other sections of the report. All forward-looking statements, including, but not limited to, statements regarding our future operating results, financial position, 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 leading digital call advertising and small business marketing company. Marchex's mission is to unlock local commerce globally by helping advertisers reach customers through the phone when they are ready to buy. Our performance-based call advertising products, Marchex Call Connect and Marchex Call Analytics, are reinventing how businesses acquire and upsell new customers though phone calls. Our Small Business Solutions products empower businesses to efficiently acquire new customers. Every day, our products support tens of thousands of advertisers and partners, ranging from global enterprises to small businesses.

We offer products, services and technologies that enable advertisers of all sizes to reach consumers across mobile, online and offline sources. Our products and services primarily include: digital call-based advertising, pay-per-click advertising, and our proprietary web site traffic sources. In addition, we provide performance marketing solutions, including private-label products for small businesses, to a network of large reseller partners including Yellow Pages publishers, media, telecommunications companies and vertical marketing service providers (i.e. companies that sell advertising products to large numbers of small advertisers). Marchex enables these partners to sell digital call marketing and analytics, search advertising products and analytics and/or presence management products to their end customers, which are then created, managed and fulfilled through our distribution networks including our proprietary web site traffic sources.

We generate revenue from two primary sources: our performance-based digital call advertising and our non-call driven sources including pay-per-click listings on our proprietary web site traffic sources. During the years ended December 31, 2009, 2010 and 2011, revenue from our proprietary web site traffic sources accounted

for approximately 34%, 27%, and 14% of total revenues, respectively. We operate primarily in domestic markets. For detail on revenue by geographical areas for the three most recent fiscal years, see Note 1(q) “Segment Reporting and Geographic Information” of the notes to our consolidated financial statements.

Marchex was incorporated in Delaware on January 17, 2003.

Products and Services

We are a digital call advertising and small business marketing company. We deliver call and click-based advertising products and services to tens of thousands of advertisers, ranging from small businesses to Fortune 500 companies. Our technology-based products and services facilitate the efficient and cost-effective marketing and selling of goods and services for national advertisers and small businesses who want to market and sell their products through call-ready media including mobile, online and offline sources; and a proprietary, locally-focused web site network where we help consumers find local information, as well as fulfill our advertiser marketing campaigns:

- ***Digital Call Advertising Services***. We deliver a variety of digital call advertising products and services to national advertisers, advertising agencies and small advertiser reseller partners. These services include Marchex Call Connect, where we provide pay-for-call advertisements through the Marchex Digital Call Marketplace, and Marchex Call Analytics, which include phone number and call tracking, call mining, keyword-level tracking, click-to-call, web site proxying, and other call-based products which enable our customers to utilize mobile, online and offline advertising to drive calls as well as clicks into their businesses and to measure the effectiveness of their advertising campaigns. 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.
- ***Small Business Solutions.*** Our small business solutions enable reseller partners of small business advertisers, such as Yellow Pages providers and vertical marketing service providers, to sell digital call advertising and/or search marketing products through their existing sales channels, which are then fulfilled by us across our distribution network, including mobile sources, leading search engines and our own proprietary web site traffic sources. By creating a solution for companies who have relationships with small businesses, it is easier for these small businesses to participate in mobile, online, offline digital call advertising. The lead services we offer to small business advertisers through our small business solutions include products typically available only to national advertisers, including pay-for-call, call tracking, presence management, ad creation, keyword selection, geo-targeting, advertising campaign management, reporting, and analytics. Our small business solutions have the capacity to support tens of thousands of advertiser accounts. Reseller partners and publishers generally pay us 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 their advertisers. Through our contract with Yellowpages.com LLC d/b/a AT&T Interactive which is a subsidiary of AT&T (collectively, “AT&T”), AT&T is our largest reseller partner and was responsible for 31% of our total revenues for 2011 of which the majority is derived from our small business solutions.
- ***Pay-Per-Click Advertising.*** We deliver pay-per-click advertisements to online users in response to their keyword search queries or on pages they visit throughout our distribution network of search engines, shopping engines, certain third party vertical and local web sites, mobile distribution and our own proprietary web site traffic sources. In addition to distributing their ads, we offer account management services to help our advertisers optimize their pay-per-click campaigns, including editorial and keyword selection recommendations and report analysis. The pay-per-click advertisements are generally ordered based on the amount our advertisers choose to pay for a placement and the relevancy of their ads to the keyword search. Advertisers pay us when a user clicks on their advertisements in our distribution network and we pay publishers or distribution partners a percentage of the revenue generated by the click-throughs on their site(s). In addition, we generate

revenue from cost-per-action events that take place on our distribution network. Cost-per-action revenue occurs when the user is redirected from one of our web sites or a third party web site in our distribution network to an advertiser's web site and completes a specified action. We also offer a private-label platform for publishers, separate and distinct from our small business solutions which enable them to monetize their web sites with contextual advertising from their own customers or from our advertising relationships. We sell pay-per-click contextual advertising placements on specialized vertical and branded publisher web sites on a pay-per-click basis. Advertisers can target the placements by category, site- or page-specific basis. We believe our site- and page-specific approach provides publishers with an opportunity to generate revenue from their traffic while protecting their brand. Our approach gives advertisers greater transparency into the source of the traffic and relevancy for their ads and enables them to optimize the return on investment from their advertising campaign. The contextual advertisement placements are generally ordered based on the amount our advertisers choose to pay for a placement and the relevance of the advertisement, based on historic click-through rates. Advertisers pay us when a user clicks on their advertisements in our network and we pay publishers a percentage of the revenue generated by the click-throughs on their site.

- ***Proprietary Web Site Traffic.*** We believe our Proprietary Web Site Traffic is a significant source of local information online and a source of calls within the Marchex Digital Call Marketplace. It includes more than 200,000 of our owned and operated web sites focused on helping users make informed decisions about where to get local products and services. It features listings from more than 10 million small business listings in the U.S. and millions of expert and user-generated reviews on small businesses. The more than 200,000 web sites in our network include more than 75,000 U.S. ZIP code sites, including 98102.com and 90210.com, covering ZIP code areas nationwide, as well as tens of thousands of 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-for-call and pay-per-click listings that are relevant to the web sites, as well as other forms of advertising, including banner advertising.

Our Distribution Network

We have built a broad distribution network for our pay-for-call and pay-per-click advertising services that includes our Proprietary Web Site Traffic Sources which is comprised of our owned and operated web sites, and hundreds of other sources including mobile sources, search engines and applications, directories, third party vertical and branded web sites, and offline sources.

Proprietary Web Site Traffic Sources:

We believe our Proprietary Web Site Traffic is a source of local information online and is a source of calls within the Marchex Digital Call Marketplace. It includes more than 200,000 web sites focused on helping users make informed decisions about where to get local products and services.

The more than 200,000 owned and operated web sites in the network include more than 75,000 U.S. ZIP code sites, including 98102.com and 90210.com, covering ZIP code areas nationwide, as well as tens of thousands of 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-for-call and pay-per-click listings that are relevant to the web sites, as well as other forms of advertising, including banner advertising.

Syndicated Distribution:

Through our digital call advertising services, our small business solutions, 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	Bankrate
Verizon	Microsoft	BusinessWeek.com
Sprint (Boost Mobile)	Yahoo!	CBS/CNET
Metro PCS		CityGrid
		Google Mobile
		Investopedia
		Skype
		Where, Inc.
		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.

Industry Overview

Today, we are witnessing an evolution in consumer behavior as consumers are increasingly looking to the phone to research and reach out to businesses. According to Morgan Stanley's Mobile Internet Report, mobile Internet use is predicted to outstrip desktop use by 2014. This growth in mobile Internet use coupled with the growth of new emerging technologies, like voice-over-Internet protocols, are changing how the PC is used as a communication device, making it easy for consumers to reach businesses over the phone. As a result, in today's marketing environment it is critical for large and small businesses alike to adopt a variety of strategies to market to consumers wherever they are looking for goods and services.

As businesses have expanded their marketing through mobile and online channels to meet consumer behavior, they are increasingly turning to more measurable forms of advertising with performance-based characteristics, such as pay-for-call or pay-per-click advertising, where an advertiser is only charged when a call is completed or a consumer clicks on an ad. The shift to performance-based advertising models has been significant as it adds transparency and measurability to advertising spending. According to the Internet Advertising Bureau, between 1999 and the first half of 2011, when large advertisers began to embrace online advertising because of its performance-based characteristics, the performance-based pricing models, which includes pay-per-click and cost-per action, grew from 7% to 64% of online advertising while the total Internet advertising market was $4.6 billion in 1999 and is projected to be over $30 billion for the full year 2011.

Today, performance-based advertising products continue to grow in prominence as advertisers demand greater control, transparency and measurability from their marketing dollars. We believe that a similar shift to performance-based advertising products will be a growth driver in the mobile advertising market. According to Berg Insight, global mobile marketing is expected to increase from $3.4 billion in 2010 to nearly $22 billion in 2016. In addition, the growth in mobile platforms also highlights the growing demand for advertisers to connect with customers over the phone. In a 2011 study independently commissioned by Marchex and conducted by Forrester Consulting, Forrester found that 49% of advertisers view calls as the most desirable result of their marketing dollars. Now that the technology is in place to deliver calls on a performance basis across media, we believe we will see increased adoption from advertisers. Forrester predicts call focused digital advertising will grow to $6 billion in the U.S. by 2014. Over time we believe the convergence of technology, including mobile platforms, with the needs of advertisers for new and evolving performance advertising products like pay-for-call will warrant greater budget allocation from large and small businesses compared to less transparent and measurable forms of advertising.

Strategy

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

- ***Innovating on Our Digital Call Products to Deliver an Industry Leading Solution*.** We plan to continue to expand our range of call based advertising product capabilities by offering innovative performance-based products like Marchex Connect, 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, including, (1) launching new performance-based small business solutions like pay-for-call advertising; (2) integrating more options for small businesses to acquire more customers through the phone, including 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
- ***Growing the Number of Advertisers Using Our Products and Services.*** We believe we will continue to increase the number of advertisers using Marchex products and services and build advertiser loyalty by providing a consistently high level of service and support as well as the ability to achieve their return on investment goals. We will continue 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.*** 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.

We are evaluating potential strategic alternatives for certain assets including certain pay-per-click products and web sites, with a goal of further focusing on the products and opportunities that can drive business growth. This evaluation may lead to divestures of certain products or assets.

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 four main categories: direct sales, reseller partnerships, online acquisition, and referral agreements.

- ***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, per-call and 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, per-call and 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.

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 and click-based 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 and interactive reporting for customers and partners. We employ commercially available technologies and products distributed by various companies, including Cisco, Dell, Oracle, Intel, Microsoft, IBM, Nuance and Veritas. We also utilize public domain software such as Apache, Linux, MySQL, Java and Tomcat.

Our technology platform is compatible with the systems used by our distribution partners, enabling us to deliver call and click-based 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

We currently or potentially compete with a variety of companies, including Google, IAC/InterActiveCorp, Microsoft, Yahoo!, Yext! and ReachLocal. 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 Internet, mobile, 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) online and mobile 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 Ingenio. We depend on maintaining and continually expanding our network of partners and advertisers to generate online and mobile transactions.

The online and mobile 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 pricing points and online and mobile 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 online and mobile 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 AOL, 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, those include the quality and relevance of our search results, and the usefulness, accessibility, integration and personalization of the online and mobile services that we offer as well as the overall user experience on our web sites. The competitive factors that we offer, which we believe attract advertisers are reach, effectiveness and creativity of marketing services and offered tools and information to help track performance.

Other competitive factors relating to our product roadmap include the relatively nascent markets around call-based advertising and products like presence management which are innovative and new markets. The adoption of these products could take longer than we expect and could become more competitive as the categories become more developed and visible.

Seasonality

We have and we believe we will continue to 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. It is generally understood that during the spring and summer months, mobile and Internet usage is lower than during other times of the year, especially in comparison to the fourth quarter of the calendar year. The extent to which usage may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage during these periods may adversely affect our growth rate and results. 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.

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. Nonprovisional Patent Application Number 11/985,188 entitled “Method and System for Tracking Telephone Calls” was filed on November 14, 2007 and a corresponding divisional Patent Application Number 13/294,436 was filed November 11, 2011.

- U.S. Patent Number 6,822,663 entitled “Transform Rule Generator for Web-Based Markup Languages” was issued November 23, 2004.
- U.S. Nonprovisional Patent Application Number 12/512,821 entitled “Facility for Reconciliation of Business Records Using Genetic Algorithms” was filed on July 30, 2009.
- U.S. Nonprovisional Patent Application Number 12/829,372 entitled “System and Method to Direct Telephone Calls to Advertisers” and U.S. Nonprovisional Patent Application Number 12/829,373 entitled System and Method for Calling Advertised Telephone Numbers on a Computing Device” and U.S. Nonprovisional Patent Application Number 12/829,375 entitled System and Method to Analyze Calls to Advertised Telephone Numbers were all filed on July 1, 2010. U.S. Respective corresponding PCT Application Numbers PCT/US11/42792, PCT/US11/42812 and PCT/US11/42819 were filed July 1, 2011.
- U.S. Nonprovisional Patent Application Number 12/844,488 entitled “Systems and Methods for Blocking Telephone Calls” was filed on July 27, 2010 and corresponding PCT Application Number PCT/US11/45403 was filed July 26, 2011.
- U.S. Patent Number 7,212,615 entitled “Criteria Based Marketing For Telephone Directory Assistance” was issued May 1, 2007 owned by Jingle Networks, Inc. (“Jingle”) 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 and corresponding European Application Number 5826299.99 was filed November 29, 2005.
- U.S. Nonprovisional 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. Nonprovisional Patent Application Number 11/291,094 entitled “Telephone Search Supported By Keyword Map To Advertising” was filed November 29, 2005.
- U.S. Nonprovisional Patent Application Number 11/728,189 entitled “Toll-Free Directory Assistance With Automatic Selection Of An Advertisement From A Category” was filed March 23, 2007.
- U.S. Nonprovisional Patent Application Number 11/897,262 entitled “Directory Assistance With Data Processing Station” was filed August 29, 2007.

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 search advertising industry has been the subject of numerous patents and patent applications, which in turn has resulted in litigation. 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 “Marchex,” “Adhere By Marchex,” “DPG,” “Form to Phone,” “Local is the New Black,” “Marchex and Design” “OpenList,” “Opportunity doesn’t Knock… it Calls!,” “goClick.com,” “Sitewise,” “Enhance Interactive,” “Marchex Adhere,” “Marchex Voice Services,” “VoiceStar” and the “Marchex Adhere” logo. We also own pending U.S. trademark applications for “We Make The Phone Ring” and “Mine”. In addition, we have registered trademarks for “Marchex” in Australia, Brazil, Canada, China, the European Union, Hong Kong, India, Japan, Republic of Korea, Russian Federation and Taiwan. We have also applied for registration of “Marchex” in a number of other foreign jurisdictions. 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.

Several 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 distribution of certain materials deemed harmful to children and impose limitations on web sites' ability to collect personal information from minors. COPPA allows the Federal Trade Commission (FTC) to impose fines and penalties upon web site operators whose sites do not fully comply with the law's requirements. We do not currently offer any web sites "directed to children," nor do we 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 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, including its Report and Order and Further Notice of Proposed Rulemaking in Docket Number WC 04-36, dated June 27, 2006, 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.

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 domain names generally is governed by Internet regulatory bodies, predominantly the Internet Corporation for Assigned Names and Numbers (ICANN). The regulation of Internet domain names 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 domain names or modify the requirements for Internet domain names.

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, 2011, we employed a total of 350 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."

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 $137.8 million as of December 31, 2011. 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, although no one distribution partner accounts for in excess of 10% of our revenues.

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 Media Metrix Core Search Report for December 2011, Yahoo! and Microsoft accounted for 14.5% and 15.1%, respectively, of the online searches in the United States and Google accounted for 65.9%. 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 AT&T (through our contract with AT&T's subsidiary Yellowpages.com LLC d/b/a AT&T Interactive), Yellowbook USA Inc., The Cobalt Group, Super Media, Inc., Yodle 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 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. A loss of certain advertiser reseller partners and agencies or a decrease in revenue from these clients could adversely affect our business. AT&T is our largest advertiser reseller partner and was responsible for 31% of our total revenues for the year ended December 31, 2011.

These advertisers may in certain cases be subject to negotiated terms and conditions separate from those applied to online clients accepted and processed through our automated advertiser management platform. 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 48% and 50% of our revenue from our five largest customers for the years ended December 31, 2010 and 2011, 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 48% and 50% of our total revenues for the years ended December 31, 2010 and 2011, respectively. AT&T is our largest customer and was responsible for 31% of our total revenues for the year ended December 31, 2011 and 37% of accounts receivable at December 31, 2011. Certain 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. This could have a material adverse effect on our results of operations and financial condition.

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 than 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, 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 or go out of business. If a customer with whom we do a substantial amount of business experiences financial difficulty, 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 generation and 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 listing 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.

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, telemarketing 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.

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 acquisition of certain automated voice and mobile advertising-based technologies is heavily reliant on vendors.

Certain voice and mobile advertising-based products that we acquired as part of our acquisition of Jingle 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 recently resolved this matter and obtained a license to the patents at issue.

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 Ireland and the United Kingdom. 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. 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 founders, could harm our current and future operations and prospects.

We are heavily dependent upon the continued services of Russell C. Horowitz, our chairman and chief executive officer, 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, 2011, Russell C. Horowitz, Ethan A. Caldwell, Peter Christothoulou and John Keister, our founders, together controlled 90% 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 founders, for any reason, or any conflict among our 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 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 no longer be amortized, but instead 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 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; significant negative industry or economic trends; or a significant decline in our stock price and/or market capitalization for a sustained period of time. 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, the quarterly amortization expense is increased or decreased. 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.

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. We may be required to record 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 establish a valuation allowance against our deferred income tax asset.

Factors in our ability to realize a tax benefit from our deferred income tax asset 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. If we determine that all or a portion of the deferred income tax asset will not result in a future tax benefit, a valuation allowance may be established with a corresponding charge to net income. Such charges may have a material adverse effect on our results of operations or financial condition. The likelihood of recording such a valuation allowance may be impacted by our acquisitions, and increases during periods of economic downturn.

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 digital 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 digital call advertising products. These intended and anticipated benefits included increasing our cash flow from operations, broadening our distribution offerings and delivering services that strengthen our advertiser relationships.

If the acquired assets are not integrated into our business as we had anticipated, we may not be able to achieve these benefits or realize the value paid for our acquisitions of Internet domain names, which could materially harm our business, financial condition and results of operations.

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.

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;
- sales to advertisers of pay-per-click services;

- 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 pay-for-call advertising to end users or customers of advertisers through mobile and online destination web sites or other offline distribution outlets;
- 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;
- services and outsourcing of technologies that allow advertisers to manage their advertising campaigns across multiple networks and track the success of these campaigns;
- third party domain monetization; and
- sales to advertisers of call tracking, call analytics, and presence management services.

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 a variety of companies, including Google, IAC/InterActiveCorp, Microsoft, Yahoo!, Yext! and ReachLocal. 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. In fact, many current Internet and media companies presently have the technical capabilities and advertiser bases to enter the search marketing services industry. 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 Internet 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 disaster; 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.

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.

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 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. Nonprovisional Patent Application Number 11/985,188 entitled "Method and System for Tracking Telephone Calls" was filed on November 14, 2007 and a corresponding divisional Patent Application Number 13/294,436 was filed November 11, 2011.
- U.S. Patent Number 6,822,663 entitled "Transform Rule Generator for Web-Based Markup Languages" was issued November 23, 2004.
- U.S. Nonprovisional Patent Application Number 12/512,821 entitled "Facility for Reconciliation of Business Records Using Genetic Algorithms" was filed on July 30, 2009.
- U.S. Nonprovisional Patent Application Number 12/829,372 entitled "System and Method to Direct Telephone Calls to Advertisers" and U.S. Nonprovisional Patent Application Number 12/829,373 entitled System and Method for Calling Advertised Telephone Numbers on a Computing Device" and U.S. Nonprovisional Patent Application Number 12/829,375 entitled System and Method to Analyze Calls to Advertised Telephone Numbers were all filed on July 1, 2010. U.S. Respective corresponding PCT Application Numbers PCT/US11/42792, PCT/US11/42812 and PCT/US11/42819 were filed July 1, 2011.
- U.S. Nonprovisional Patent Application Number 12/844,488 entitled "Systems and Methods for Blocking Telephone Calls" was filed on July 27, 2010 and corresponding PCT Application Number PCT/US11/45403 was filed July 26, 2011.
- U.S. Patent Number 7,212,615 entitled "Criteria Based Marketing For Telephone Directory Assistance" was issued May 1, 2007 owned by Jingle 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 and corresponding European Application Number 5826299.99 was filed November 29, 2005.
- U.S. Nonprovisional 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. Nonprovisional Patent Application Number 11/291,094 entitled "Telephone Search Supported By Keyword Map To Advertising" was filed November 29, 2005.
- U.S. Nonprovisional Patent Application Number 11/728,189 entitled "Toll-Free Directory Assistance With Automatic Selection Of An Advertisement From A Category" was filed March 23, 2007.
- U.S. Nonprovisional Patent Application Number 11/897,262 entitled "Directory Assistance With Data Processing Station" was filed August 29, 2007.

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. It is generally understood that during the spring and summer months of the year, mobile and Internet usage is lower than during other times of the year, especially in comparison to the fourth quarter of the calendar year. The extent to which usage may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage during these periods may adversely affect our growth rate and in turn the market price of our securities. 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 may impact our quarterly results of operations in addition to typical seasonality seen in our industry.

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 the Internet and mobile and 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 the Internet as an effective commercial and business medium. Factors which could reduce the widespread use of 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 transactions conducted on the Internet and the privacy of users, including the risk of identity theft, may inhibit the growth of Internet usage, especially mobile and online 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 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.

Government regulation of the Internet may adversely affect our business and operating results.

Mobile and online search, e-commerce and related businesses face uncertainty related to future government regulation of the Internet through the application of new or existing federal, state and international laws. Due to the rapid growth and widespread use of the Internet, legislatures at the federal and state level 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 Internet companies 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 impact 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 distribution of certain materials deemed harmful to children and imposes limitations on web sites' ability to collect personal information from minors. COPPA allows the Federal Trade Commission (FTC) to impose fines and penalties upon web site operators whose sites do not fully comply with the law's requirements. We do not currently offer any web sites "directed to children," nor do we collect personal data 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.

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 which 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, Telecommunications and Data Protection Directives. 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, to the extent we offer call recording and pay-for-call services, we may be directly subject 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.

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.

On November 19, 2004, the federal government passed legislation placing a ban on state and local governments' imposition of new taxes on Internet access or electronic commerce transactions which expires in November 2014. Unless the ban is further extended, state and local governments may begin to levy additional taxes on Internet access and electronic commerce transactions upon the legislation's expiration. 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 Ownership of our 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, 2011. 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, including in connection with our Jingle acquisition;
- 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 previously announced 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; 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.

Our 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, 2011, Russell C. Horowitz, Ethan A. Caldwell, Peter Christothoulou and John Keister, our founders, beneficially owned 100% of the outstanding shares of our Class A common stock, which shares represented 90% of the combined voting power of all outstanding shares of our capital stock. These founders together control 90% 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 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 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 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 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 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 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 common stock since November 2006. However, there is no assurance that we will be able to pay dividends in the future. 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 also lease additional office space in Las Vegas, Nevada, Billerica, Massachusetts, and New York, New York with lease terms expiring between August 2012 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, 2010		
First Quarter	$ 5.78	$4.87
Second Quarter	$ 5.44	$3.85
Third Quarter	$ 5.55	$3.80
Fourth Quarter	$ 9.72	$5.15
Year ended December 31, 2011		
First Quarter	$ 9.94	$7.42
Second Quarter	$ 8.99	$6.54
Third Quarter	$10.80	$7.85
Fourth Quarter	$ 9.14	$5.67

Holders

As of March 7, 2012, there were 37,165,083 shares of common stock outstanding that were held by 75 stockholders of record. Of these shares:

- 9,570,382 shares were issued as Class A common stock, and as of this date were held by 4 stockholders of record; and
- 27,594,701 shares were issued as Class B common stock, and as of this date were held by 71 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. Although we expect that the annual cash dividend, subject to capital availability, will be $0.08 per common share or approximately $3.0 million for the foreseeable future, there can be no assurance that we will continue to pay dividends at such rate or at all.

Issuer Purchases of Equity Securities

During the fourth quarter of 2011, share repurchase activity was as follows:

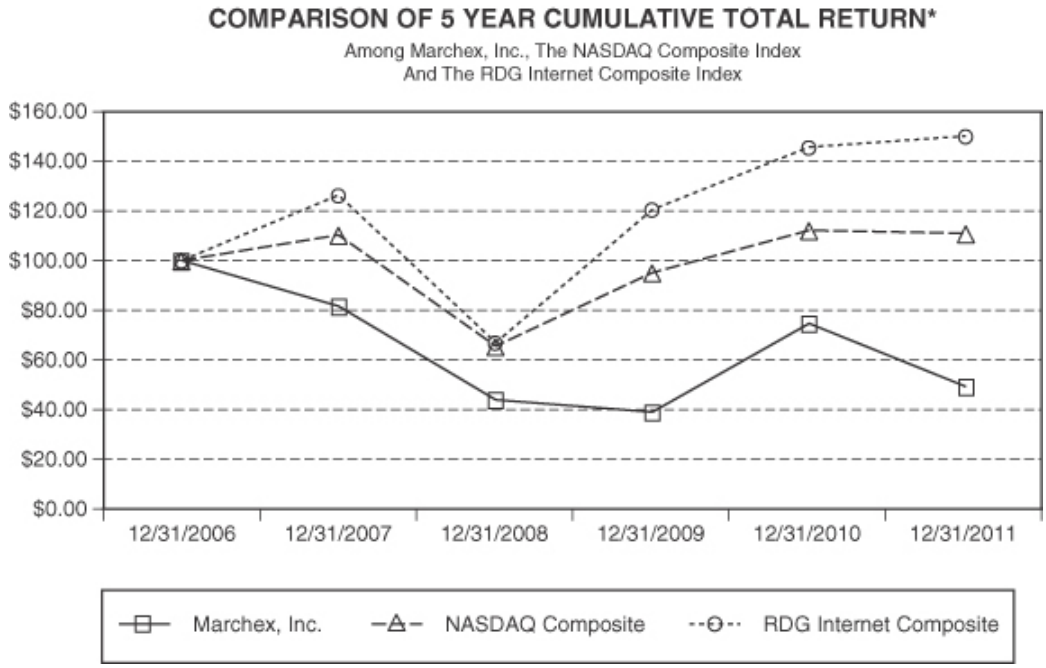
Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares (or approximate dollar value) that may yet be purchased under the plans or programs[1]
Class B Common Shares:				
October 1 - October 31, 2011	6,300	$ 8.63	6,300	588,331
November 1 - November 30, 2011	295,471	$ 6.11	295,471	292,860
December 1 - December 31, 2011	157,292	$ 6.78	157,292	1,135,568
Total Class B Common Shares	459,063	$ 6.37	459,063	1,135,568

(1) We have established a share repurchase program which currently authorizes the Company to repurchase up to 12 million shares in the aggregate (less shares previously repurchased under the share repurchase program) of the Company's Class B common stock. No shares will be knowingly purchased from company insiders or their affiliates. 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. This stock repurchase program does not have an expiration date and may be expanded, limited or terminated at any time without prior notice.

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, 2006 through December 31, 2011 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, 2006 through 2011. The graph assumes that $100 was invested on December 31, 2006 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 12/31/06 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
Marchex, Inc.	$100.00	$ 81.69	$44.25	$ 39.23	$ 74.77	$ 49.47
NASDAQ Composite Index	$100.00	$110.26	$65.65	$ 95.19	$112.10	$110.81
RDG Internet Composite Index	$100.00	$126.21	$67.19	$120.51	$145.40	$149.87

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, 2007 and 2008 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, 2009, 2010 and 2011, and the consolidated balance sheet data at December 31, 2010 and 2011, 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,				
	2007	2008	2009	2010	2011
Revenue	$ 139,391	$ 146,375	$ 93,261	$ 97,566	$ 146,726
Income (loss) from operations	$ (3,037)	$ (175,286)	$ (3,570)	$ (3,789)	$ 6,030
Net loss	$ (1,505)	$ (127,864)	$ (2,062)	$ (3,043)	$ 2,959
Net income (loss) applicable to common stockholders	$ (1,627)	$ (128,132)	$ (2,249)	$ (3,242)	$ 2,700
Basic net income (loss) per share applicable to Class A and Class B common stockholders	$ (0.04)	$ (3.52)	$ (0.07)	$ (0.10)	$ 0.08
Diluted loss per share applicable to Class A and Class B common stockholders	$ (0.04)	$ (3.52)	$ (0.07)	$ (0.10)	$ 0.08
Shares used to calculate basic net income (loss) per share applicable to common stockholders					
Class A	11,562	10,964	10,884	10,661	9,928
Class B	27,375	25,468	22,830	21,993	23,358
Shares used to calculate diluted net income (loss) per share applicable to common stockholders					
Class A	11,562	10,964	10,884	10,661	9,928
Class B	38,937	36,432	33,714	32,654	35,318

Consolidated Balance Sheet Data (in thousands):

	December 31,				
	2007	2008	2009	2010	2011
Cash and cash equivalents	$ 36,456	$ 27,418	$ 33,638	$ 37,328	$ 37,443
Working capital	$ 41,243	$ 34,988	$ 41,273	$ 47,305	$ 16,168
Total assets	$ 320,194	$ 170,270	$ 159,373	$ 159,690	$ 220,058
Other non-current liabilities	$ 105	$ 23	$ 1,005	$ 2,076	$ 2,580
Total liabilities	$ 18,306	$ 20,962	$ 17,948	$ 19,998	$ 61,050
Total stockholders’ equity	$ 301,888	$ 149,308	$ 141,425	$ 139,692	$ 159,008
Cash dividends declared per common share	$ 0.06	$ 0.08	$ 0.08	$ 0.08	$ 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

We are a digital call advertising and small business marketing company. We deliver call and click-based advertising products and services to tens of thousands of advertisers, ranging from small businesses to Fortune 500 companies. Our technology-based products and services facilitate the efficient and cost-effective marketing and selling of goods and services for national and small businesses who want to market and sell their products through call-ready media including mobile, online and offline; and a proprietary, locally-focused web site network where we help consumers find local information, as well as fulfill our advertiser marketing campaigns:

- ***Digital Call Advertising Services.*** We deliver a variety of digital call advertising products and services to national advertisers, advertising agencies and small advertiser reseller partners. These services include Marchex Call Connect, where we provide pay-for-call advertisements through the Marchex Digital Call Marketplace, and Marchex Call Analytics, which include phone number and call tracking, call mining, keyword-level tracking, click-to-call, web site proxying, and other call-based products which enable our customers to utilize mobile, online and offline advertising to drive calls as well as clicks into their businesses and to measure the effectiveness of their advertising campaigns. 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.
- ***Small Business Solutions.*** Our small business solutions enable reseller partners of small business advertisers, such as Yellow Pages providers and vertical marketing service providers, to sell digital call advertising and/or search marketing products through their existing sales channels, which are then fulfilled by us across our distribution network, including mobile sources, leading search engines and our own proprietary web site traffic sources. By creating a solution for companies who have relationships with small businesses, it is easier for these small businesses to participate in mobile, online, offline digital call advertising. The lead services we offer to small business advertisers through our small business solutions include products typically available only to national advertisers, including pay-for-call, call tracking, presence management ad creation, keyword selection, geo-targeting, advertising campaign management, reporting, and analytics. Our small business solutions have the capacity to support hundreds of thousands of advertiser accounts. Reseller partners and publishers generally pay us account fees and also 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 d/b/a AT&T Interactive which is a subsidiary of AT&T (collectively, "AT&T"), AT&T is our largest reseller partner and was responsible for 31% of our total revenues for 2011 of which the majority is derived from our small business solutions.
- ***Pay-Per-Click Advertising.*** We deliver pay-per-click advertisements to online users in response to their keyword search queries or on pages they visit throughout our distribution network of search engines, shopping engines, certain third party vertical and local web sites, mobile distribution and our own proprietary web site traffic sources. In addition to distributing their ads, we offer account management services to help our advertisers optimize their pay-per-click campaigns, including editorial and keyword selection recommendations and report analysis. The pay-per-click advertisements are generally ordered based on the amount our advertisers choose to pay for a placement and the relevancy of their ads to the keyword search. Advertisers pay us when a user clicks on their advertisements in our distribution

network and we pay publishers or distribution partners a percentage of the revenue generated by the click-throughs on their site(s). In addition, we generate revenue from cost-per-action events that take place on our distribution network. Cost-per-action revenue occurs when the user is redirected from one of our web sites or a third party web site in our distribution network to an advertiser's web site and completes a specified action. We also offer a private-label platform for publishers, separate and distinct from our small business solutions which enable them to monetize their web sites with contextual advertising from their own customers or from our advertising relationships. We sell pay-per-click contextual advertising placements on specialized vertical and branded publisher web sites on a pay-per-click basis. Advertisers can target the placements by category, site- or page-specific basis. We believe our site- and page-specific approach provides publishers with an opportunity to generate revenue from their traffic while protecting their brand. Our approach gives advertisers greater transparency into the source of the traffic and relevancy for their ads and enables them to optimize the return on investment from their advertising campaign. The contextual advertisement placements are generally ordered based on the amount our advertisers choose to pay for a placement and the relevance of the advertisement, based on historic click-through rates. Advertisers pay us when a user clicks on their advertisements in our network and we pay publishers a percentage of the revenue generated by the click-throughs on their site.

- ***Proprietary Web Site Traffic.*** We believe our Proprietary Web Site Traffic is a source of local information online and is a source of calls within the Marchex Digital Call Marketplace. It includes more than 200,000 of our owned and operated web sites focused on helping users make informed decisions about where to get local products and services. It features listings from more than 10 million small business listings in the U.S. and millions of expert and user-generated reviews on small businesses. The more than 200,000 web sites in our network include more than 75,000 U.S. ZIP code sites, including 98102.com and 90210.com, covering ZIP code areas nationwide, as well as tens of thousands of 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-for-call and pay-per-click listings that are relevant to the web sites, as well as other forms of advertising, including banner advertising.
- ***Feed Management and Related Services.*** Through the end of 2009, we used our proprietary technology to crawl and extract relevant product content from advertisers' databases and web sites to create automated and highly-targeted product and service listings feed, which we delivered primarily into Yahoo!'s search submit product. Advertisers generally paid us a fixed price for each click they received on an advertisement or listing included in the feed. In addition and as a supplement to feed management services, we offered campaign management services to enable our advertisers to consolidate the purchasing, management, optimization and reporting from their search and vertical advertising campaigns across a large number of search engines, local web sites and pay-per-click networks in one central location. Under these services advertisers paid us a pre-negotiated rate for each click they receive on their advertisement placed or managed as part of our campaign management services. Yahoo! discontinued its feed management service relationship with us effective December 31, 2009 as a result of its partnership with Microsoft. Accordingly, we discontinued our feed management and related service offerings as of that date. We generated $7.5 million in revenues from feed management and related services for the year ended December 31, 2009. The impact on our financial statements attributable to our ending this service is lessened by the relatively low operating margin attributable to this service given our revenue share arrangement with Yahoo! with respect thereto.

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; Billerica, Massachusetts; and New York, New York.

Acquisition

On April 7, 2011, the Company acquired 100% of the stock of Jingle Networks, Inc. ("Jingle") a provider of mobile voice search performance advertising and technology solutions in North America for the following consideration:

- Approximately $15.8 million in cash, net of cash acquired, and 1,019,103 shares of the Company's Class B common stock paid at closing; plus
- Future consideration of (i) $17.6 million, net of certain working capital adjustments on the first anniversary of the closing, and (ii) $18.0 million on the 18th month anniversary of closing, with the future consideration payable in either cash or shares of the Company's Class B common stock or some combination to be determined by Marchex. Any shares issued in payment of the future consideration will be increased by 5%.

Following the closing, we issued 462,247 shares of restricted stock at an aggregate value of approximately $3.3 million to employees of Jingle, subject to vesting for up to four years.

The fair value of the shares of Class B common stock issued as part of the consideration paid was valued at $7.6 million using the Company's closing stock price of $7.46 per share at the acquisition date. The fair value of the future consideration payments of $34.7 million, was determined using a rate of approximately 2% based on the Company's incremental borrowing rate and is recorded as current deferred acquisition payments in the balance sheet.

Consolidated Statements of Operations

The assets, liabilities and operations of our acquisitions are included in our consolidated financial statements as of the date of the respective acquisitions.

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.

Presentation of Financial Reporting Periods

The comparative periods presented are for the years ended December 31, 2009, 2010 and 2011.

Revenue

We currently generate revenue through our call advertising services, pay-per-click advertising, small business solutions products which include our call and click services, proprietary web site traffic, and historically our feed management and related services.

Our primary sources of revenue are the performance-based advertising services, which include pay-for-call services, pay-per-click services, cost-per-action services and historically our feed management and related services. These primary sources amounted to greater than 78% of our revenues in all periods presented. Our secondary sources of revenue are our small business solutions products which enable partner resellers to sell call advertising and/or search marketing products, campaign management services, and natural search optimization services. These secondary sources amounted to less than 22% of our revenues in all periods presented. We have no barter transactions.

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 the online user 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 small business solutions products to sell call advertising and/or search marketing 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.

Prior to 2010, we provided feed management services in which advertisers pay for their Web pages and product databases to be crawled, or searched, and included in search engine, directory and product shopping engine results within our distribution network. Generally, the feed management listings are presented in a different section of the Web page than the pay-per-click listings. For this service, revenue is generated when an online user clicks on a feed management listing from search engine, directory or product shopping engine results. Each click-through on an advertisement listing represents a completed transaction for which the advertiser pays for on a per-click basis. The placement of a feed management result is largely determined by its relevancy, as determined by the distribution partner. Yahoo! discontinued its feed management service relationship with us effective December 31, 2009 as a result of its partnership with Microsoft. Accordingly, we discontinued our feed management and related service offerings as of that date.

Search Marketing Services

Advertisers pay us additional fees for services such as campaign management and natural search engine optimization. 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.

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.

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 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. It is generally understood that during the spring and summer months, mobile and Internet usage is lower than during other times of the year, especially in comparison to the fourth quarter of the calendar year. The extent to which usage may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage 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.

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;
- 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 consist 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.

- 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 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, 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 account for stock-based compensation under the fair value method. As a result, stock-based compensation consists of the following:

- all share-based compensation arrangements granted after January 1, 2006 (adoption date of FASB ASC 718) and for any such arrangements that are modified, cancelled, or repurchased after that date, and
- the portion of previous share-based awards for which the requisite service has not been rendered as of January 1, 2006.

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 relates 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.

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.

Each reporting period we must assess the likelihood that our deferred tax assets will be recovered from existing deferred tax liabilities or future taxable income, and to the extent that realization is not more likely than not, a valuation allowance must be established. The establishment of a valuation allowance and increases to such an allowance may result in either increases to income tax expense or reduction of income tax benefit in the statement of operations. Although realization is not assured, we believe it is more likely than not, based on operating performance, existing deferred tax liabilities, projections of future taxable income and tax planning strategies, that our net deferred tax assets, excluding certain state, city, and foreign net operating loss carryforwards, will be realized. In determining that it was more likely than not that we would realize the deferred tax assets, factors considered included: historical taxable income, historical trends related to advertiser usage rates, projected revenues and expenses, macroeconomic conditions and issues facing our industry, existing contracts, our ability to project future results and any appreciation of our other assets. The majority of our deferred tax assets are from goodwill and intangible assets recorded in connection with various acquisitions that are tax-deductible over 15 year periods. Based on projections of future taxable income and tax planning strategies, we expect to be able to recover these assets. The amount of the net deferred tax assets considered realizable, however, could be reduced in the near term if our projections of future taxable income are reduced or if we do not perform at the levels we are projecting. This could result in increases to the valuation allowance for deferred tax assets and a corresponding increase to income tax expense of up to the entire net amount of deferred tax assets.

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.

As of December 31, 2011, we have net deferred tax assets of $49.1 million, relating to the impairment of goodwill, amortization of intangibles assets, certain other temporary differences, acquired federal and state net operating loss carryforwards, and research and development credits. Although realization is not assured, we believe it is more likely than not that our net deferred tax assets, excluding certain state, city, and foreign net operating loss carryforwards, will be realized. As of December 31, 2011, based upon both positive and negative evidence available, we have determined it is not more likely than not that certain deferred tax assets primarily relating to net operating loss carryforwards in certain state, city, and foreign jurisdictions will be realizable and accordingly, have recorded a 100% valuation allowance of $4.6 million against these deferred tax assets. We do not have a history of taxable income in the relevant jurisdictions and the state and foreign net operating loss carryforwards will more likely than not expire unutilized. Should we determine in the future that we will be able to realize these deferred tax assets, or not be able to realize all or part of our remaining net deferred tax assets recorded as of December 31, 2011, an adjustment to the net deferred tax assets would impact net income or stockholders' equity in the period such determination was made.

As of December 31, 2010 and 2011, we had federal net operating loss carryforwards ("NOL") of $1.7 million (excluding Jingle) 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 approximately $1.7 million of NOL carryforwards is limited such that substantially all of these federal NOL carryforwards will never be available. Accordingly, we have not recorded a deferred tax asset for these NOL's.

In connection with the Jingle acquisition, the Company acquired federal net operating loss carryforwards ("NOL"). Where there is a "change in ownership" within the meaning of Section 382 of the Internal Revenue Code, the acquired federal net operating loss carryforwards are subject to an annual limitation. The Company believes 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, the Company has not recorded those amounts the Company believes it will not be able to utilize and has not included those NOL carryforwards in its deferred tax assets. The Company's preliminary estimate of NOL carryforwards that may be utilized is approximately $7.0 million. In 2011, the Company utilized approximately $2.8 million.

Comparison of the year ended December 31, 2010 (2010) to the year ended December 31, 2011 (2011) and comparison of the year ended December 31, 2009 (2009) to the year ended December 31, 2010 (2010).

Revenue.

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

	Years ended December 31,		
	2009	2010	2011
Partner and Other Revenue Sources	$61,698	$71,537	$126,210
Proprietary Web Site Traffic Sources	31,563	26,029	20,516
Total Revenue	$93,261	$97,566	$146,726

2010 to 2011

Our partner network revenues are primarily generated using third party distribution networks to deliver the pay-for-call and per-per-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, mobile carriers, 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. Other revenues include our call provisioning and call tracking services, presence management services, campaign management services, natural search optimization services and outsourced search marketing platforms. 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. 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.

Revenue increased 50% from $97.6 million for 2010 compared to $146.7 million in 2011. The partner and other revenues increased $54.7 million due almost entirely to increased revenues from our call advertising services, which includes approximately $17.0 million indirectly attributable to the pre-existing customers from the Jingle acquisition, and small business solutions products which in part was driven by adding tens of thousands of national and small business accounts across our call advertising services and small business solutions product platforms and certain pricing reductions and incentives provided to AT&T in 2010. We estimated these incentives in comparison to the prior pricing arrangement likely generated an estimated $8 million in savings to AT&T during 2010. This increase was offset by an $800,000 decrease in revenue from our pay-per-click services.

Our proprietary web site traffic revenues decreased $5.5 million and were primarily a result of decreased revenues for cost-per-actions from resellers related to our local search and directory web sites. In the near term, we expect lower proprietary web site traffic revenues as a result of lower budgets for cost-per-actions from resellers particularly related to our local search and directory web sites.

2009 to 2010

Revenue was $93.3 million for 2009 compared to $97.6 million in 2010. The partner and other revenues increased $9.8 million and were affected primarily by increased revenues of $17.6 million in our call advertising services, which in part was driven by adding more than 25,000 national and small business accounts to our platform across our small business solutions products and call advertising services. This increase was offset by a decrease in revenue from AT&T from pricing reductions and incentives as part of an extension of our arrangement with AT&T in the second quarter of 2010 along with a decrease in revenue of $6.8 million generated from our feed management and related services. Effective December 31, 2009 Yahoo! discontinued its feed management service relationship with us as a result of its recently announced partnership with Microsoft. Accordingly, we discontinued our feed management service offering as of that date.

Under our primary arrangement with AT&T, we generate revenues from our small business solutions products to sell call advertising and/or search marketing products through their existing sales channels, which are then fulfilled by us across our distribution network. 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 their advertisers. In the second quarter of 2010, we signed an extension of our arrangement with AT&T through June 30, 2015 that includes certain exclusivity provisions for new advertiser accounts and the contemplated migration of several thousand existing advertiser accounts. As part of the arrangement, we provided pricing reductions including significant pricing incentives in 2010. We estimated these incentives in comparison to the prior arrangement pricing likely generated an estimated $8 million in savings for AT&T during 2010. Our proprietary web site traffic revenue decreased primarily due to $3.1 million in lower revenues for cost-per-actions from resellers such as Dex One Corporation, WhitePages, Inc. and Intelius, Inc., particularly related to our local search and directory web sites. The remainder of such decrease was largely due to lower revenues from our arrangement with Yahoo! whereby we receive payment upon click-throughs on pay-per-click listings presented on our web sites. This decrease was principally due to fewer click-throughs on pay-per-click listings from Yahoo! through the third quarter of 2010 and the expiration of our paid listings arrangement with Yahoo! related to our web sites on September 30, 2010, although we expect to continue various other contractual arrangements with Yahoo!. We entered into a paid listings arrangement with another advertiser service provider in the fourth quarter of 2010 which primarily offset Yahoo!’s revenue decline in such quarter.

Our ability to maintain and grow our revenues will depend in part on maintaining and increasing the number of phone calls and click-throughs 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, which we believe is dependent in part on marketing our Web sites and delivering high quality traffic that ultimately results in purchases or conversions for our advertisers and advertising services providers. We may increase our direct monetization of our proprietary web site 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. 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.

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 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 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. It is generally understood that during the spring and summer months, mobile and Internet usage is lower than during other times of the year, especially in comparison to the fourth quarter of the calendar year. The extent to which usage may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage during these periods may adversely affect our growth rate and results.

Expenses

Expenses were as follows (in thousands):

	Twelve months ended December 31,					
	2009	% revenue	2010	% revenue	2011	% revenue
Service costs	$ 47,633	51%	$ 57,557	59%	$ 81,835	56%
Sales and marketing	17,890	19%	13,530	14%	15,434	11%
Product development	14,478	16%	16,804	17%	22,794	16%
General and administrative	16,049	17%	17,507	18%	22,709	15%
Amortization of intangible assets from acquisitions	5,493	6%	2,729	3%	5,455	4%
Acquisition related costs	—	0%	—	0%	1,890	1%
	$101,543	109%	$108,127	111%	$150,117	103%

We follow FASB ASC 718 and record stock-based compensation expense under the fair value method. In 2011, we recorded $15.1 million of stock-based compensation expense as compared to $10.8 million in 2010 and $9.6 million in 2009. This 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):

	Twelve months ended December 31,		
	2009	2010	2011
Service costs	$ 474	$ 805	$ 1,291
Sales and marketing	1,400	799	1,505
Product development	592	1,015	1,416
General and administrative	7,131	8,213	10,931
Total stock-based compensation	$ 9,597	$ 10,832	$ 15,143

See Note 7 (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 42%, from $57.6 million in 2010 to $81.8 million in 2011. The increase was primarily attributable to an increase in distribution partner payments, fees paid to outside service providers, personnel costs, stock-based compensation, facility costs, communication and network costs, travel, and depreciation totaling $24.6 million, partially offset primarily by a decrease in Internet domain amortization of $333,000. These increases are also related to the incremental revenues as a result of the Jingle acquisition and the related operating activities.

Service costs increased 21% from $47.6 million in 2009 to $57.6 million in 2010. The increase was primarily attributable to an increase in distribution partner payments, fees paid to outside service providers, personnel costs, stock-based compensation, facility costs, communication and network costs, travel, and depreciation totaling $10.5 million, partially offset primarily by a decrease in Internet domain amortization and credit card processing fees of $533,000.

Service costs represented 56% of revenue in 2011 compared to 59% in 2010 and 51% in 2009. The 2011 decrease as a percentage of revenue in service costs compared to 2010 was primarily a result of certain pricing reductions and incentives as part of an extension of our arrangement with AT&T in the second quarter of 2010. The 2010 increase as a percentage of revenue in service costs as compared to 2009 was primarily a result of an increase in the proportion of revenue attributable to our pay-for-call or cost-per-action services for which there are related distribution partner payments, the effect of pricing reductions and pricing incentives to AT&T, and to a lesser extent an increase in communication and network costs. Payments to pay-for -call, pay-per-click, and cost-per-action partners account for higher user acquisition costs 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 proprietary web site traffic revenues have a lower service cost as a percentage of revenue relative to our overall service cost percentage. Our proprietary web site traffic revenues have no corresponding distribution partner payments. To the extent our proprietary web site traffic revenues 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 will increase as a percentage of revenue in the near term. We also expect that in the longer term service costs will increase in absolute dollars 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 and traffic and invest in our platforms.

Sales and Marketing. Sales and marketing expenses increased 14% from $13.5 million in 2010 to $15.4 million in 2011. As a percentage of revenue, sales and marketing expenses were 14% and 11% for 2010 and 2011, respectively. The net increase in dollars was related primarily to increases in personnel and stock-based compensation costs related to the Jingle acquisition partially offset by a decrease in online and outside marketing activities. The 2011 decrease as a percentage of revenue in sales and marketing expenses was primarily a result of revenues increasing at a greater rate when compared to the increase in sales and marketing expenses. 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 relatively similar 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.

Sales and marketing expenses decreased 24% from $17.9 million in 2009 to $13.5 million in 2010. As a percentage of revenue, sales and marketing expenses were 19% and 14% for 2009 and 2010, respectively. The net decrease in dollars and percentage of revenue was related primarily to a decrease in online and outside marketing activities and stock-based compensation.

Product Development. Product development expenses increased 36% from $16.8 million in 2010 to $22.8 million in 2011. The increase in dollars was primarily due to an increase in personnel costs and stock-based compensation of $5.0 million partially related to the Jingle acquisition. As a percentage of revenue, product development expenses were 17% and 16% in 2010 and 2011, respectively. The 2011 decrease as a percentage of revenue in product development expense as compared to 2010 was primarily a result of revenues increasing at a greater rate when compared to the increase in product development costs. We expect product development

expenditures in the near term to be relatively stable 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.

Product development expenses increased 16% from $14.5 million in 2009 to $16.8 million in 2010. The increase in dollars was primarily due to an increase in personnel costs and stock-based compensation of $2.9 million. As a percentage of revenue, product development expenses were 16% and 17% in 2009 and 2010, respectively. The 2010 increase as a percentage of revenue in product development expense as compared to 2009 was primarily a result of an increase in the proportion of personnel costs and stock-based compensation relative to revenue.

General and Administrative. General and administrative expenses increased 30%, from $17.5 million in 2010 to $22.7 million in 2011. The increase in dollars was primarily due to an increase in personnel costs and stock-based compensation related primarily to the Jingle acquisition. As a percentage of revenue, general and administrative expenses were 18% and 15% in 2010 and 2011, respectively. The 2011 decrease as a percentage of revenue in general and administrative expenses was primarily a result of revenues increasing at a greater rate when compared to the general and administrative expenses. We expect our general and administrative expenses to be relatively stable 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-based compensation is impacted by market conditions relating to our stock price.

General and administrative expenses increased 9%, from $16.0 million in 2009 to $17.5 million in 2010. The increase in dollars was primarily due to an increase in stock-based compensation, personnel costs, fees paid to outside service providers, and bad debt expense of $1.9 million offset by a decrease in facility and other operating costs of $487,000. As a percentage of revenue, general and administrative expenses were 17% and 18% in 2009 and 2010, respectively.

Amortization of Intangible Assets from Acquisitions. Intangible amortization expense increased from $2.7 million in 2010 to $5.5 million in 2011. The increase was associated with amortization of intangible assets acquired in the Jingle acquisition in April 2011 offset partially by certain intangible assets from prior acquisitions being fully amortized. During 2011, the amortization of intangibles related to service costs, sales and marketing and general and administrative expenses.

Intangible amortization expense decreased 50%, from $5.5 million in 2009 to $2.7 million in 2010. The decrease was associated with certain intangible assets from acquisitions being fully amortized. During 2010, 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. The identified intangible assets acquired in the Jingle acquisition are $12.0 million and are being amortized over a range of useful lives of 12 to 36 months. 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; significant negative industry or economic trends; or a significant decline in the Company’s stock price and/or market capitalization for a sustained period of time.

No impairment of the Company’s intangible assets have been identified in 2011. The current business environment is subject to evolving market conditions and requires significant management judgment to interpret the potential impact to our assumptions. 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, 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 additional impairment loss to the extent that the carrying amount exceeds such assets' fair values.

Acquisition related costs. Acquisition related costs of $1.9 million were primarily for professional fees to perform due diligence, historical audits in connection with regulatory filings and other procedures associated with our acquisition of Jingle in April 2011. Of the $1.9 million of acquisition related costs, we recognized approximately $372,000 for the future obligations of non-cancelable lease and other costs related to the Jingle office. The portion related to the non-cancelable lease is based on estimates of vacancy period and sublease income. The actual vacancy periods may differ from these estimates, and sublease income, if any, may not materialize. Accordingly, these estimates may be adjusted in future periods.

Gain on sales and disposals of intangible assets, net. The gain on sales and disposals of intangible assets, net was $9.4 million in 2011 and was attributable to the sales and disposals of Internet domain names and other intangible assets. The gain on sales and disposals of intangible assets, net was $4.7 million and $6.8 million in 2009 and 2010, respectively.

Other income (expense), net. Other income (expense), net were $129,000 and ($458,000) in 2010 and 2011, respectively. The net increase in other income (expense), net during 2011 was primarily due to accretion of interest expense related to the future consideration for the Jingle acquisition.

Other income (expense), net were ($17,000) and $129,000 in 2009 and 2010, respectively. The net increase in other income (expense), net during 2010 was primarily due to cash received related to a settlement agreement.

Income Taxes. The income tax benefit in 2010 was $617,000 compared to an income tax expense of $2.6 million in 2011. In 2010, the effective tax rate benefit of 17% differed from the expected effective tax rate of 35% due to state income taxes, non-deductible stock-based compensation related to restricted stock and incentive stock options recorded under the fair-value method, other non-deductible amounts and an adjustment for the research and experimentation credit for 2010. In 2011, the effective tax rate of 47% differed from the expected effective tax rate of 35% due to state income taxes, non-deductible stock-based compensation related to restricted stock and incentive stock options recorded under the fair-value method, acquisition related costs related to the Jingle acquisition, non-cash accretion of interest expense, and other non-deductible amounts. In addition, we recorded $362,000 of income tax benefit associated with our federal return audits for years 2005 through 2009.

The income tax benefit in 2009 was $1.5 million compared to $617,000 in 2010. In 2009, we completed an analysis and recorded an adjustment totaling $1.3 million to reflect updated filings for research and experimentation credits for the period 2005 through 2009. In addition, our effective tax rate benefit of 43% differed from the expected effective tax rate of 35% due to the research and experimentation credit, partially offset by restricted stock and incentive stock options recorded under the fair-value method, state income taxes, and other non-deductible amounts.

During 2009, 2010 and 2011, we recognized excess tax benefits (deficits) on stock option exercises, restricted stock vesting, and dividends paid on unvested restricted stock of approximately ($1.8) million, ($537,000), and $913,000, respectively, which were recorded to additional paid in capital.

Net Income (Loss). Net income (loss) increased from a net loss of $3.0 million in 2010 to net income of $3.0 million in 2011. The increase was primarily attributable to an increase in revenues and gains on sales of intangible assets, offset partially by operating costs increases and acquisition related costs of $1.9 million for 2011in which there were no comparable costs in 2010. Income tax expense of $2.6 million recorded in 2011 further offset the increase in revenues. The Jingle acquisition also resulted in increased revenues and operating costs.

Net loss increased from $2.1 million in 2009 to $3.0 million in 2010. The increase was primarily attributable to an income tax benefit of $1.5 million in 2009 compared to $617,000 in 2010. The increase was also a result of operating cost increases in distribution partner payments, communication and network costs, personnel costs and stock-based compensation, and revenue impacts due to pricing reductions and incentives to AT&T. This was offset by lower online and outside marketing costs and higher gain on sales and disposals of intangible assets.

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, 2011. 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, 2010**	**June 30, 2010**	**Sept 30, 2010**	**Dec 31, 2010**	**Mar 31, 2011**	**June 30, 2011**	**Sept 30, 2011**	**Dec 31, 2011**
Consolidated Statement of Operations:								
Revenue	$24,002	$ 21,394	$24,195	$27,975	$29,080	$ 38,761	$39,862	$39,023
Expenses:								
Service costs [1]	12,649	13,656	14,604	16,648	16,672	21,701	21,848	21,614
Sales and marketing [1]	3,911	3,511	3,183	2,925	2,695	3,933	4,547	4,259
Product development [1]	3,962	4,326	4,194	4,322	4,889	5,937	6,132	5,836
General and administrative [1]	3,837	4,289	4,684	4,697	5,155	6,139	5,860	5,555
Acquisition related costs	—	—	—	—	402	1,049	62	377
Amortization of intangible assets from acquisitions [2]	705	711	704	609	464	1,620	1,672	1,699
Total operating expenses	25,064	26,493	27,369	29,201	30,277	40,379	40,121	39,340
Gain on sales and disposals of intangible assets, net	1,327	690	2,633	2,122	1,913	2,712	2,487	2,309
Income (loss) from operations	265	(4,409)	(541)	896	716	1,094	2,228	1,992
Other income (expense):								
Interest income	19	19	17	21	131	7	3	—
Interest and line of credit expense	(26)	(27)	(27)	(27)	(26)	(183)	(198)	(197)
Other	2	45	112	1	(3)	2	(1)	7
Total other income (expense)	(5)	37	102	(5)	102	(174)	(196)	(190)
Income (loss) before provision for income taxes	260	(4,372)	(439)	891	818	920	2,032	1,802
Income tax expense (benefit)	328	(1,245)	54	246	242	779	778	814
Net income (loss)	(68)	(3,127)	(493)	645	576	141	1,254	988
Dividends paid to participating securities	(44)	(48)	(55)	(52)	(63)	(61)	(67)	(68)
Net income (loss) applicable to common stockholders	$ (112)	$ (3,175)	$ (548)	$ 593	$ 513	$ 80	$ 1,187	$ 920

(1) Excludes amortization of intangible assets from acquisitions

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

Service costs	$ 705	$ 711	$ 704	$ 609	$ 464	$ 1,314	$ 1,359	$ 1,378
Sales and marketing	—	—	—	—	—	292	298	307
General and administrative	—	—	—	—	—	14	15	14
Total	$ 705	$ 711	$ 704	$ 609	$ 464	$ 1,620	$ 1,672	$ 1,699

Liquidity and Capital Resources

As of December 31, 2010 and 2011, we had cash and cash equivalents of $37.3 million and $37.4 million, respectively. As of December 31, 2011, we had current and long term contractual obligations of $56.8 million of which $35.6 million is for deferred payments related to the Jingle acquisition, which are to be paid in cash or shares of Class B common stock or combination of both at Marchex's option, and $14.0 million is for rent under our facility operating leases.

Cash provided by operating activities primarily consists of a 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 related costs, accretion of interest, gain on sale of intangible assets net, and changes in working capital.

Cash provided by operating activities for the year ended December 31, 2011 of approximately $16.8 million consisted primarily of net income of $3.0 million adjusted for non-cash items of $27.6 million, including depreciation, amortization of intangible assets, allowance for doubtful accounts and advertiser credits, stock-based compensation, acquisition related costs, excess tax benefit related to stock-based compensation, and deferred income taxes, gain on sales and disposals of intangible and fixed assets, net of $9.4 million and $4.3 million used for working capital and other activities, which is net of cash received of $204,000 related to a lease incentive. Cash provided by operating activities for the year ended December 31, 2010 of approximately $9.4 million consisted primarily of net loss of $3.0 million adjusted for non-cash items of $21.9 million, including depreciation, amortization of intangible assets, allowance for doubtful accounts and advertiser credits, stock-based compensation, and deferred income taxes, gain on sales and disposals of intangible and fixed assets, net of $6.8 million and approximately $2.6 million used for working capital and other activities which is net of cash received of $779,000 related to a lease incentive. Cash provided by operating activities for the year ended December 31, 2009 of approximately $17.1 million consisted primarily of a net loss of $2.1 million adjusted for non-cash items of $26.4 million, including depreciation, amortization of intangible assets, allowance for doubtful accounts and advertiser credits, stock-based compensation, deferred income taxes and excess income tax benefit related to stock options, gain on sales and disposals of intangible and fixed assets, net of $4.7 million and approximately $2.5 million used in 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. We generally receive payment from advertisers in close proximity or in some cases prior to the timing of the corresponding payments to the distribution partners who provide placement for the listings. These services constituted the majority of revenue in 2009, 2010 and 2011. 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 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 small business solutions products, such as AT&T, SuperMedia Inc., Yellowbook USA Inc., The Cobalt Group, and Yellow Media Inc., whereby we receive payment between 30 and 60 days following the delivery of services. For the year and as of December 31, 2011 amounts from these partners totaled 46% of revenue and $15.6 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. There can be no assurances that these partners or other advertisers will not experience further financial difficulty, curtail operations, reduce or eliminate spend budgets, delay payments or otherwise forfeit balances owed. Net accounts receivable balances outstanding at December 31, 2011 from AT&T totaled $11.3 million.

SuperMedia and Dex One and its subsidiaries consummated reorganizations under Chapter 11 of the U.S. Bankruptcy Code during 2009. SuperMedia and Dex One accounted for $2.8 million and $1.1 million of revenue, respectively, for the year ended December 31, 2009. We did not recognize an aggregate of $1.6 million in revenue related to services delivered to SuperMedia and Dex One for the year ended December 31, 2009 in light of collectability considerations and we did not recognize such amounts in 2010 based on the terms of their plans of reorganization.

Cash used in investing activities for the year ended December 31, 2011 of approximately $10.4 million was primarily attributable to the cash paid at closing of $15.8 million related to the Jingle acquisition, and purchases for property and equipment of $4.0 million which were partially offset by proceeds from the sales of intangible assets of approximately $9.5 million. In April 2011, we acquired Jingle in which $15.8 million, net of cash acquired, was paid at closing. The acquisition includes deferred acquisition payments of $17.6 million and $18.0 million to be paid in cash or shares of Class B common stock or a combination of both at the Marchex's option on the 12th and 18th month anniversaries of closing. Any deferred acquisition payments paid in shares will be increased by 5%. Cash provided by investing activities for the year ended December 31, 2010 of approximately $3.2 million was primarily attributable to proceeds from the sales of intangible assets of approximately $6.8 million which were primarily offset by net purchases for property and equipment of $3.4 million. Cash provided by investing activities for the year ended December 31, 2009 of approximately $2.5 million was primarily attributable to proceeds from the sales of intangible assets of approximately $4.9 million primarily offset by net purchases for property and equipment of $2.4 million.

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 used in financing activities for the year ended December 31, 2011 of approximately $6.3 million was primarily attributable to the repurchase of 883,000 shares of Class B common stock for treasury stock totaling approximately $6.2 million and common stock dividend payments of $2.9 million, partially offset by net proceeds of approximately $1.8 million from the sale of stock through employee stock options and employee stock plan purchases and $1.0 million from excess tax benefit related to stock-based compensation. Cash used in financing activities for the year ended December 31, 2010 of approximately $8.9 million was primarily attributable to the repurchase of 1.2 million shares of Class B common stock for treasury stock totaling approximately $6.5 million and common stock dividend payments of $2.8 million offset by net proceeds of approximately $399,000 from the sale of stock through employee stock options and employee stock plan purchases and $36,000 of excess tax benefits related to stock-based compensation. Cash used in financing activities for the year ended December 31, 2009 of approximately $13.5 million was primarily attributable to the repurchase of 2.8 million shares of Class B common stock for treasury stock totaling approximately $10.7 million, and common stock dividend payments of $2.9 million, partially offset by net proceeds of approximately $131,000 from the sale of stock through employee stock options and employee stock plan purchases and $69,000 of excess tax benefits related to stock options.

The following table summarizes our contractual obligations as of December 31, 2011, 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	$14,049	$ 2,124	$ 4,523	$ 4,492	$ 2,910
Other contractual obligations [3],	42,770	$39,040	2,644	1,086	—
Total contractual obligations [1], [2]	$56,819	$41,164	$ 7,167	$ 5,578	$ 2,910

(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 $305,000 are not included due to their uncertainty.

(3) Includes deferred acquisition payments of $17.6 million and 18.0 million to be paid in cash or shares of Class B common stock or a combination of both option on the 12th and 18th month anniversaries of closing related to the Jingle acquisition. Any deferred acquisition payments paid in shares will be increased by 5%. These deferred acquisition payments are recorded on the balance sheet as short term liabilities.

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.

We are evaluating potential strategic alternatives for certain assets including certain pay-per-click products and web sites, with a goal of further focusing on the products and opportunities that can drive business growth. This evaluation may lead to divestures, which may result in cash proceeds in the near term but could also impact future operating cash flows.

On April 1, 2008, we entered into a three year 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. During the first quarter of 2011, we signed an amendment to the credit agreement which extended the maturity period through to April 1, 2014 and increases the applicable margin rate by 25 basis points. As of December 31, 2011, we had $30 million of availability under the credit agreement.

In November 2006, our board of directors authorized a share 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. During 2008 and 2009, our board of directors authorized various increase in the share repurchase program to repurchase up to 11 million shares in the aggregate (less shares previously purchased under the share repurchase program). In December 2011, our board of directors authorized an increase in the share repurchase program to repurchase up to 12 million shares in the aggregate (less shares previously repurchased under the share repurchase program) of our Class B common stock. Under the share repurchase program, repurchases may take place in the open market and in privately negotiated transactions and at times and in such amounts as we deem appropriate. 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. This share 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, 2010 and 2011, approximately 1.2 million and 883,000 shares of Class B common stock, respectively, were repurchased under the share purchase program. In 2012, we have repurchased approximately 136,000 shares of Class B common stock to date.

The quarterly cash dividend was initiated at $0.02 per share of Class A common stock and Class B common stock. For 2010, quarterly dividends were paid on February 15, May 17, August 16 and November 15 to Class A

and Class B common stockholders of record as of the close of business of February 4, May 5, August 6 and November 5, respectively. Total dividends paid in 2010 were approximately $2.8 million. For 2011, quarterly dividends were paid on February 15, May 16, August 15 and November 15 to Class A and Class B common stockholders of record as of the close of business of February 4, May 6, August 5 and November 5, respectively. Total dividends paid in 2011 were approximately $2.9 million. Although we expect that the annual cash dividend, subject to capital availability, will be $0.08 per common share or approximately $3.0 million for the foreseeable future, there can be no assurance that we will continue to pay dividends at such a rate or at all. 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 before the dividend is declared by the board of directors.

On May 6, 2011, a Registration Statement on Form S-3 (File No. 174016) relating to the resale of 1,019,103 shares of our Class B common stock by certain selling stockholders with S-3 registration rights granted in connection with the Jingle acquisition was filed the SEC. This Registration Statement on Form S-3 was declared effective by the SEC on August 24, 2011. We will not receive any proceeds in connection with these sales by selling stockholders.

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. The primary revenue driver has been 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 an online, mobile 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 the online user 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 mobile and online search engines and applications, directories, shopping engines, third party Internet domains or web sites, other targeted Web-based content, 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 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 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.

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 elements, the entire fee from the arrangement is allocated to each respective element based on its relative fair value and recognized when revenue recognition criteria for each element are met. Fair value for each element is established based on the sales price charged when the same element is 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*" 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.

Goodwill is tested annually for impairment and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. 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; significant negative industry or economic trends; and a significant decline in the Company's stock price and/or market

capitalization for a sustained period of time. If our stock price were to trade below book value per share for a extended period of time and/or we continue to 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 is to be recognized by 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.

No impairment of our goodwill and other intangible assets have been identified in 2009, 2010 or 2011. The current business environment is subject to evolving market conditions and requires significant management judgment to interpret the potential impact to our assumptions. To the extent that changes in the current business environment impact our ability to achieve levels of forecasted operating results and cash flows, or should other events occur indicating the remaining carrying value of our assets might be impaired, we would test our intangible assets for impairment and may recognize an additional impairment loss to the extent that the carrying amount exceeds such asset's fair value.

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 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 2011, we issued equity awards of stock options and restricted stock units in three separate tranches 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 used 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 7 (b)—"Stock Option Plan" in the consolidated financial statements for additional information.

Allowance for Doubtful Accounts and Advertiser Credits

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

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

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.

Each reporting period we must assess the likelihood that our deferred tax assets will be recovered from existing deferred tax liabilities or future taxable income, and to the extent that realization is not more likely than not, a valuation allowance must be established. The establishment of a valuation allowance and increases to such an allowance may result in either increases to income tax expense or reduction of income tax benefit in the statement of operations. Although realization is not assured, we believe it is more likely than not, based on operating performance, existing deferred tax liabilities, projections of future taxable income and tax planning strategies, that our net deferred tax assets, excluding certain state, city, and foreign net operating loss carryforwards, will be realized. In determining that it was more likely than not that we would realize the deferred tax assets, factors considered included: historical taxable income, historical trends related to advertiser usage rates, projected revenues and expenses, macroeconomic conditions and issues facing our industry, existing contracts, our ability to project future results and any appreciation of our other assets. The majority of our deferred tax assets are from goodwill and intangible assets recorded in connection with various acquisitions that are tax-deductible over 15 year periods. Based on projections of future taxable income and tax planning strategies, we expect to be able to recover these assets. The amount of the net deferred tax assets considered

realizable, however, could be reduced in the near term if our projections of future taxable income are reduced or if we do not perform at the levels we are projecting. This could result in increases to the valuation allowance for deferred tax assets and a corresponding increase to income tax expense of up to the entire net amount of deferred tax assets.

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.

FASB ASC 740 clarifies the accounting for uncertainty in income taxes recognized in the financial statements. This pronouncement prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in the our tax return. FASB ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure requirements for uncertain tax positions.

As of December 31, 2011, we have net deferred tax assets of $49.1 million, relating to the impairment of goodwill, amortization of intangibles assets, certain other temporary differences, acquired federal and state net operating loss carryforwards, and research and development credits. Although realization is not assured, we believe it is more likely than not that our net deferred tax assets, excluding certain state and foreign net operating loss carryforwards, will be realized. As of December 31, 2011, based upon both positive and negative evidence available, we have determined it is not more likely than not that certain deferred tax assets primarily relating to net operating loss carryforwards in certain state, city and foreign jurisdictions will be realizable and accordingly, have recorded a 100% valuation allowance of $4.6 million against these deferred tax assets. We do not have a history of taxable income in the relevant jurisdictions and the state and foreign net operating loss carryforwards will more likely than not expire unutilized. Should we determine in the future that we will be able to realize these deferred tax assets, or not be able to realize all or part of our remaining net deferred tax assets recorded as of December 31, 2011, an adjustment to the net deferred tax assets would impact net income or stockholders' equity in the period such determination was made.

As of December 31, 2010 and 2011, we had federal net operating loss carryforwards ("NOL") of $1.7 million (excluding Jingle) 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 approximately $1.7 million of NOL carryforwards is limited such that substantially all of these federal NOL carryforwards will never be available. Accordingly, we have not recorded a deferred tax asset for these NOL's.

In connection with the Jingle acquisition, the Company acquired federal net operating loss carryforwards ("NOL"). Where there is a "change in ownership" within the meaning of Section 382 of the Internal Revenue Code, the acquired federal net operating loss carryforwards are subject to an annual limitation. The Company believes 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, the Company has not recorded those amounts the Company believes it will not be able to utilize and has not included those NOL carryforwards in its deferred tax assets. The Company's preliminary estimate of NOL carryforwards that may be utilized is approximately $7.0 million. In 2011, the Company utilized approximately $2.8 million.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"). ASU 2011-04 amended Accounting Standards Codification Topic 820 ("ASC 820") to converge the fair value measurement guidance in U.S. GAAP and International Financial Reporting Standards ("IFRSs"). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, ASU

2011-04 requires additional fair value disclosures. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. We will adopt these provisions in first quarter 2012 and we do not expect these provisions to have a material impact on our consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ("ASU 2011-05"), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. The amendment is effective for fiscal years beginning after December 15, 2011, and interim periods within that year. In December 2011, the FASB issued an amendment to an existing accounting standard which defers the requirement to present components of the reclassifications of other comprehensive income on the face of the income statement. We do not expect these standards to have a material impact on our consolidated financial statements.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Testing Goodwill for Impairment* ("ASU 2011-08"). ASU 2011-08 amended Accounting Standards Codification Topic 350 ("ASC 350") to allow companies to first assess qualitative factors to determine whether existence of events or circumstances leads to a conclusion that it is not more likely than not that the fair value of a reporting unit is less than the carrying value. If such a conclusion is reached, then the two-step impairment test is not required to be performed. ASU 2011-08 is effective for the Company in 2012 and earlier adoption is permitted. We will adopt this standard in the first quarter of 2012 and we do not expect the standard to have a material impact 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, 2010 and 2011, 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 as of December 31, 2010 and 2011, 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, 2011. 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, 2010 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, 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, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 12, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Seattle, Washington
March 12, 2012

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, 2011, based on criteria established in *Internal Control—Integrated Framework* 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 the Company'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, 2011, based on criteria established in *Internal Control—Integrated Framework* 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, 2010 and 2011, 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, 2011, and our report dated March 12, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Seattle, Washington
March 12, 2012

MARCHEX, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except per share amounts)

	As of December 31,	
	2010	2011
Assets		
Current assets:		
Cash and cash equivalents	$ 37,328	$ 37,443
Accounts receivable, net	20,214	30,635
Prepaid expenses and other current assets	3,567	3,614
Refundable taxes	3,249	193
Deferred tax assets	869	2,753
Total current assets	65,227	74,638
Property and equipment, net	4,710	6,187
Deferred tax assets	50,769	46,310
Intangible and other assets, net	2,070	2,191
Goodwill	35,337	82,644
Intangible assets from acquisitions, net	1,577	8,088
Total assets	$ 159,690	$ 220,058
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 11,166	$ 12,896
Accrued expenses and other current liabilities	5,106	8,430
Deferred acquisition payments	—	35,214
Deferred revenue	1,650	1,930
Total current liabilities	17,922	58,470
Other non-current liabilities	2,076	2,580
Total liabilities	19,998	61,050
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.01 par value. Authorized 137,500 shares;		
Class A: 12,500 shares authorized; 10,501 and 10,238 shares issued and outstanding, respectively, at December 31, 2010; 9,894 and 9,632 shares issued and outstanding, respectively, at December 31, 2011	105	99
Class B: 125,000 shares authorized; 25,480 and 25,257 shares issued and outstanding, respectively, at December 31, 2010, including 3,214 of restricted stock at December 31, 2010; and 28,074 and 27,917 shares issued and outstanding, respectively, at December 31, 2011, including 3,995 restricted stock at December 31, 2011	255	281
Treasury stock: 223 and 157 shares of Class B stock at December 31, 2010 and 2011, respectively	(1,360)	(1,067)
Additional paid-in capital	281,421	297,465
Accumulated deficit	(140,729)	(137,770)
Total stockholders' equity	139,692	159,008
Total liabilities and stockholders' equity	$ 159,690	$ 220,058

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,		
	2009	2010	2011
Revenue	$ 93,261	$ 97,566	$146,726
Expenses:			
Service costs [1]	47,633	57,557	81,835
Sales and marketing [1]	17,890	13,530	15,434
Product development [1]	14,478	16,804	22,794
General and administrative [1]	16,049	17,507	22,709
Amortization of intangible assets from acquisitions [2]	5,493	2,729	5,455
Acquisition related costs	—	—	1,890
Total operating expenses	101,543	108,127	150,117
Gain on sales and disposals of intangible assets, net	4,712	6,772	9,421
Income (loss) from operations	(3,570)	(3,789)	6,030
Other income (expense):			
Interest income	60	76	141
Interest and line of credit expense	(99)	(107)	(604)
Other	22	160	5
Total other income (expense)	(17)	129	(458)
Income (loss) before provision for income taxes	(3,587)	(3,660)	5,572
Income tax expense (benefit)	(1,525)	(617)	2,613
Net income (loss)	(2,062)	(3,043)	2,959
Dividends paid to participating securities	(187)	(199)	(259)
Net income (loss) applicable to common stockholders	$ (2,249)	$ (3,242)	$ 2,700
Basic and diluted net income (loss) per share applicable to Class A and Class B common stockholders	$ (0.07)	$ (0.10)	$ 0.08
Dividends paid per share	$ 0.08	$ 0.08	$ 0.08
Shares used to calculate basic net income (loss) per share applicable to common stockholders			
Class A	10,884	10,661	9,928
Class B	22,830	21,993	23,358
Shares used to calculate diluted net income (loss) per share applicable to common stockholders			
Class A	10,884	10,661	9,928
Class B	33,714	32,654	35,318

[1] Excludes amortization of intangible assets from acquisitions.

[2] Components of amortization of intangible assets from acquisitions:

Service costs	$ 5,448	$ 2,729	$ 4,515
Sales and marketing	—	—	897
General and administrative	45	—	43
Total	$ 5,493	$ 2,729	$ 5,455

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, 2008	10,959	$ 112	28,674	$ 287	(2,580)	$(15,393)	$ 299,926	$ (135,624)	$ 149,308
Issuance of common stock upon exercise of stock options	—	—	36	—	—	—	81	—	81
Income tax shortfall of option exercises and restricted stock vesting, net	—	—	—	—	—	—	(1,841)	—	(1,841)
Issuance of common stock under employee stock purchase plan	—	—	11	—	—	—	39	—	39
Issuance of restricted stock to employees	—	—	1,178	12	—	—	—	—	12
Repurchase of Class B common stock	—	—	—	—	(2,752)	(10,721)	—	—	(10,721)
Conversion of Class A common stock to									
Class B common stock	(90)	(1)	90	1	—	—	—	—	—
Repurchase of unvested restricted stock	—	—	—	—	(158)	(2)	—	—	(2)
Stock compensation from options and restricted stock, net of estimated forfeitures	—	—	—	—	—	—	9,513	—	9,513
Retirement of treasury stock	—	—	(4,795)	(48)	4,795	22,911	(22,863)	—	—
Net loss	—	—	—	—	—	—	—	(2,062)	(2,062)
Common stock cash dividends	—	—	—	—	—	—	(2,902)	—	(2,902)
Balances at December 31, 2009	10,869	$ 111	25,194	$ 252	(695)	$ (3,205)	$ 281,953	$ (137,686)	$ 141,425
Issuance of common stock upon exercise of stock options	—	—	82	1	—	—	371	—	372
Income tax shortfall of option exercises and restricted stock vesting, net	—	—	—	—	—	—	(537)	—	(537)
Issuance of common stock under employee stock purchase plan	—	—	3	—	—	—	17	—	17
Issuance of restricted stock to employees	—	—	1,358	14	—	—	—	—	14
Repurchase of Class B common stock	—	—	—	—	(1,234)	(6,534)	—	—	(6,534)
Conversion of Class A common stock to									
Class B common stock	(631)	(6)	631	6	—	—	—	—	—
Repurchase of unvested restricted stock	—	—	—	—	(82)	(1)	—	—	(1)
Stock compensation from options and restricted stock, net of estimated forfeitures	—	—	—	—	—	—	10,795	—	10,795
Retirement of treasury stock	—	—	(1,788)	(18)	1,788	8,380	(8,362)	—	—
Net loss	—	—	—	—	—	—	—	(3,043)	(3,043)
Common stock cash dividends	—	—	—	—	—	—	(2,816)	—	(2,816)
Balances at December 31, 2010	10,238	$ 105	25,480	$ 255	(223)	$ (1,360)	$ 281,421	$ (140,729)	$ 139,692
Issuance of common stock upon exercise of stock options	—	—	411	4	—	—	1,753	—	1,757
Income tax benefit of option exercises and restricted stock vesting, net	—	—	—	—	—	—	913	—	913
Issuance of common stock under employee stock purchase plan	—	—	4	—	—	—	26	—	26
Issuance of common stock in connection with acquisition	—	—	1,019	10	—	—	7,593	—	7,603
Issuance of restricted stock to employees	—	—	1,103	11	—	—	—	—	11
Issuance of restricted stock to employees as part of acquisitions	—	—	462	5	—	—	—	—	5
Repurchase of Class B common stock	—	—	—	—	(883)	(6,159)	—	—	(6,159)
Conversion of Class A common stock to									
Class B common stock	(606)	(6)	606	6	—	—	—	—	—
Repurchase of unvested restricted stock	—	—			(62)	(1)	—	—	(1)
Stock compensation from options and restricted stock, net of estimated forfeitures	—	—	—	—	—	—	15,140	—	15,140
Retirement of treasury stock	—	—	(1,011)	(10)	1,011	6,453	(6,443)	—	—
Net income	—	—	—	—	—	—	—	2,959	2,959
Common stock cash dividends	—	—	—	—	—	—	(2,938)	—	(2,938)
Balances at December 31, 2011	9,632	$ 99	28,074	$ 281	(157)	$ (1,067)	$ 297,465	$ (137,770)	$ 159,008

See accompanying notes to consolidated financial statements.

MARCHEX, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(in thousands)

	Years ended December 31,		
	2009	2010	2011
Net income (loss)	$ (2,062)	$ (3,043)	$ 2,959
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization and depreciation	11,704	7,694	9,473
Accretion of interest expense	—	—	519
Acquisition related costs	—	—	372
Leasehold improvement incentive	—	779	204
Gain on sales of fixed assets, net	(9)	(2)	(4)
Gain on sales and disposals of intangible assets, net	(4,712)	(6,772)	(9,421)
Allowance for doubtful accounts and advertiser credits	975	1,348	1,203
Stock-based compensation	9,597	10,832	15,143
Deferred income taxes	4,232	2,004	1,895
Excess tax benefit related to stock-based compensation	(69)	(36)	(1,032)
Change in certain assets and liabilities, net of acquisition:			
Accounts receivable, net	5,975	(6,778)	(6,965)
Refundable taxes, net	(3,678)	1,631	4,006
Prepaid expenses, other current assets and restricted cash	327	(988)	(1,618)
Accounts payable	(3,659)	2,486	(1,542)
Accrued expenses and other current liabilities	(1,267)	(320)	1,195
Deferred revenue	(236)	(307)	210
Other non-current liabilities	29	860	185
Net cash provided by operating activities	17,147	9,388	16,782
Purchases of property and equipment	(2,383)	(3,441)	(3,971)
Cash paid for acquisitions, net of cash acquired	—	—	(15,801)
Proceeds from sales of property and equipment	9	1	9
Proceeds from sales of intangible assets	4,921	6,779	9,474
Purchases of intangibles and changes in other non-current assets	(12)	(116)	(103)
Net cash provided by (used in) investing activities	2,535	3,223	(10,392)
Capital lease obligation principal payments	(39)	(6)	—
Excess tax benefit related to stock options	69	36	1,032
Repurchase of Class B common stock for treasury stock	(10,721)	(6,534)	(6,159)
Common stock dividends payments	(2,902)	(2,816)	(2,938)
Proceeds from exercises of stock options	80	372	1,754
Proceeds from issuance of restricted stock to employees	12	10	10
Proceeds from employee stock purchase plan	39	17	26
Net cash used in financing activities	(13,462)	(8,921)	(6,275)
Net increase in cash and cash equivalents	6,220	3,690	115
Cash and cash equivalents at beginning of period	27,418	33,638	37,328
Cash and cash equivalents at end of period	$ 33,638	$37,328	$ 37,443
Supplemental disclosure of cash flow information:			
Cash received during the period for income taxes, net of payments	(2,107)	(4,336)	(2,994)
Cash paid (received) during the period for interest, net	69	77	(63)
Supplemental disclosure of non-cash investing and financing activities:			
Fair value of Class B common stock issued in connection with acquisition	—	—	7,603
Deferred payments related to acquisition	—	—	34,695
Property and equipment acquired in accounts payable and accrued expenses	801	54	121
Leasehold improvement incentive recorded in other current assets and other non-current liabilities	779	211	—

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 digital call advertising and small business solutions company. The Company delivers call and click-based advertising products and services to tens of thousands of advertisers, ranging from small businesses to the Fortune 500 companies.

The consolidated financial statements include the accounts of Marchex and its wholly-owned subsidiaries. Acquisitions are included in the Company's consolidated financial statements as of and from the date of acquisition. The Company's purchase accounting resulted in all assets and liabilities of acquired businesses being recorded at their estimated fair values on the acquisition dates. All inter-company transactions and balances have been eliminated in consolidation. Certain reclassifications have been made to the consolidated financial statements in the prior years to conform to the current year presentation.

Acquisition

On April 7, 2011, the Company acquired 100% of the stock of Jingle Networks, Inc. ("Jingle"), a provider of mobile voice search performance advertising and technology solutions in North America. See Note 10 for further discussion.

(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, 2010 and 2011: 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 or based on 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.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

The allowance for doubtful account 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, 2009	$ 817	$ 59	$ 409	$ 467
December 31, 2010	467	343	353	457
December 31, 2011	457	453	117	793

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, 2009	$ 486	$ 917	$ 939	$ 464
December 31, 2010	464	1,005	830	639
December 31, 2011	639	690	856	473

(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.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

(h) Revenue Recognition

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

	Years ended December 31,		
	2009	2010	2011
Partner and Other Revenue Sources	$61,698	$71,537	$126,210
Proprietary Web site Traffic Sources	31,563	26,029	20,516
Total Revenue	$93,261	$97,566	$146,726

The Company's partner network revenues are primarily generated using third party distribution networks to deliver the pay-for-call or pay-per-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, and 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 pays a revenue share to the distribution partners to access their mobile, online, offline and other user traffic. Other revenues include the Company's call provisioning and call tracking services, presence management services, campaign management services and natural search optimization services.

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.

The Company's primary sources of revenue are the performance-based advertising services, which include pay-for-call and voice search services, pay-per-click services, cost-per-action services and historically feed management and related services. These primary sources amounted to greater than 78% of revenue for the years ended December 31, 2009, 2010 and 2011. The secondary sources of revenue are small business solutions products which enable partner resellers to sell call adverting and/or search marketing products, campaign management services, and natural search optimization services. These secondary sources amounted to less than 22% of revenue for the years ended December 31, 2009, 2010 and 2011. 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 and offline sources. The Company also generates revenue from cost-per-action services, which occurs when the online user 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 small business solutions products to sell call advertising and/or search marketing 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.

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 advertisement and the relevance of the advertisement, which is dictated by historical click-through rates. Advertisers pay the Company when a click-through occurs on their advertisement.

Prior to 2010, the Company offered feed management services in which advertisers paid for their Web pages and product databases to be crawled, or searched, and included in search engine, directory and product shopping engine results within the Company's distribution network. Generally, the feed management listings were presented in a different section of the Web page than the pay-per-click listings. For this service, revenue was generated when an online user clicks on a feed management listing from search engine, directory or product shopping engine results. Each click-through on an advertisement listing represented a completed transaction for which the advertiser paid for on a per-click basis. The placement of a feed management result was largely determined by its relevancy, as determined by the distribution partner. Yahoo! discontinued its feed management service relationship with the Company effective December 31, 2009 as a result of its partnership with Microsoft. Accordingly, the Company discontinued its feed management and related service offerings as of that date.

Advertisers pay the Company additional fees for services such as campaign management and natural search engine optimization. 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.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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 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.

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 elements, the entire fee from the arrangement is allocated to each respective element based on its relative fair value and recognized when the revenue recognition criteria, as described above, for each element are met. Fair value for each element is established based on the sales price charged when the same element is sold separately.

(j) 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 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 search results and maintaining the Company's web sites include depreciation of web sites, network equipment and internally developed software, colocation charges of the Company's network web site equipment, bandwidth, software license fees, salaries of related personnel, stock-based compensation and amortization of intangible assets. Other service costs include license fees, the amortization of the purchase cost of domain names, the 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.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

(k) Advertising Expenses

Advertising costs are expensed as incurred and include Internet-based advertising, sponsorships, and trade shows. Such costs are included in sales and marketing. Internet-based advertising is concentrated primarily with four providers. The amounts for online and related outside marketing activities were approximately $8.1 million, $3.8 million and $3.3 million for the years ended December 31, 2009, 2010 and 2011, respectively.

(l) 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. 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.

(m) Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax laws or rates is recognized in results of operations in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets when it is more likely than not that such deferred tax assets will not be realized.

(n) Stock-Based Compensation

The Company follows FASB ASC 718 and accounts for stock-based compensation for employees and non-employees under the fair value method. As a result, stock-based compensation consists of the following:

- all share-based compensation arrangements granted after January 1, 2006 (adoption date of FASB ASC 718) and for any such arrangements that are modified, cancelled, or repurchased after that date; and
- the portion of previous share-based awards for which the requisite service was not rendered as of January 1, 2006.

Stock-based compensation expense has been included in the same lines as compensation paid to the same employees in the consolidated statement of operations.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

(o) 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, intangible assets, the fair-value of the Company's common stock and stock option awards, the impairment of goodwill and intangible assets and a 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.

(p) Concentrations

The Company maintains substantially all of their cash and cash equivalents with one financial institution.

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 representing more than 10% of consolidated revenue for the years ended December 31, 2009, 2010 and 2011.

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

	Years ended December 31,		
	2009	2010	2011
Advertiser A	11%	*	*
Advertiser B	22%	23%	31%
Advertiser C	11%	*	*

Advertiser A and B are also distribution partners.

* Less than 10% of revenue.

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

	At December 31,	
	2010	2011
Advertiser B	40%	37%
Advertiser D	11%	*

* Less than 10% of accounts receivable.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

(q) Segment Reporting and Geographic Information

Operating segments are revenue-producing components of the enterprise for which separate financial information is produced internally for the Company's management. For all periods presented the Company operated as a single segment. The Company operates in a single operating segment principally in domestic markets providing digital advertiser transaction services to enterprises.

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 digital activities.

Revenues by geographic region are as follows (in percentages):

	Years ended December 31,		
	2009	2010	2011
United States	98%	96%	94%
Canada	1%	4%	6%
Other countries	1%	*	*
	100%	100%	100%

* Less than 1% of revenue

(r) 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 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 stockholder 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 and have been 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 restricted shares since it initiated a quarterly cash dividend in November 2006.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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 impacts the calculation of amounts allocated to common stock. The following table calculates net loss to net loss applicable to common stockholders used to compute basic net loss per share for the periods ended (in thousands, except per share amounts):

	Twelve months ended December 31,					
	2009		2010		2011	
	Class A	Class B	Class A	Class B	Class A	Class B
Numerator:						
Net income (loss)	$ (726)	$ (1,336)	$ (1,058)	$ (1,985)	$ 799	$ 2,160
Dividends paid to participating securities	—	(187)	—	(199)	—	(259)
Net income (loss) applicable to common stockholders	$ (726)	$ (1,523)	$ (1,058)	$ (2,184)	$ 799	$ 1,901
Denominator:						
Weighted average number of shares outstanding used to calculate basic net income (loss) per share	10,884	22,830	10,661	21,993	9,928	23,358
Basic net income (loss) per share applicable to common stockholders	$ (0.07)	$ (0.07)	$ (0.10)	$ (0.10)	$ 0.08	$ 0.08

The following table calculates net income (loss) to diluted 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,					
	2009		2010		2011	
	Class A	Class B	Class A	Class B	Class A	Class B
Numerator:						
Net income (loss)	$ (726)	$ (1,336)	$ (1,058)	$ (1,985)	$ 799	$ 2,160
Dividends paid to participating securities	—	(187)	—	(199)	—	(259)
Reallocation of net income (loss) for Class A shares as a result of conversion of Class A to Class B shares		(726)	—	(1,058)	—	799
Net income (loss) applicable to common stockholders	$ (726)	$ (2,249)	$ (1,058)	$ (3,242)	$ 799	$ 2,700
Denominator:						
Weighted average number of shares outstanding used to calculate basic net income (loss) per share	10,884	22,830	10,661	21,993	9,928	23,358
Weighted average stock options and common shares subject to repurchase or cancellation	—	—	—	—		2,032
Conversion of Class A to Class B common shares outstanding	—	10,884	—	10,661	—	9,928
Weighted average number of shares outstanding used to calculate diluted net income (loss) per share	10,884	33,714	10,661	32,654	9,928	35,318
Diluted net income (loss) per share applicable to common stockholders	$ (0.07)	$ (0.07)	$ (0.10)	$ (0.10)	$ 0.08	$ 0.08

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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, 2009 and 2010, outstanding options to acquire 4,701 and 6,411 shares, respectively, of Class B common stock. For the year ended December 31, 2011, outstanding options to acquire 4,792 shares of Class B common stock.
- For the years ended December 31, 2009, 2010, and 2011, 2,542, 3,214 and 134 shares, respectively, of unvested Class B restricted common shares issued to employees and in connection with acquisitions. These shares were for future services that vest over periods ranging from two to six years.
- For the year ended December 31, 2010 and 2011, 255 and 153 restricted stock units with vesting based on meeting certain service and market conditions.
- For the year ended December 31, 2011, 5,987 shares of Class B common stock that may be issued in lieu of cash for the deferred payments related to the acquisition of Jingle using the “if converted” method. See Note 11 for further discussion.

(s) 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.

(t) Deferred Acquisition Payment

The Company’s deferred acquisition payments represent consideration payable related to a business combination, which may be paid in either cash or shares of the Company’s Series B common stock at the Company’s discretion. Any deferred acquisition payments settled in common stock will be increased by 5%. The deferred acquisition payments were originally recognized at fair value at the date of the business combination and are recorded as liabilities on the balance sheet. Interest expense on the principal amounts due is accreted each period using the effective interest rate method.

(u) Recently Issued Accounting Standards

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (“ASU 2011-04”). ASU 2011-04 amended Accounting Standards Codification Topic 820 (“ASC 820”) to converge the fair value measurement guidance in U.S. GAAP and International Financial

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

Reporting Standards ("IFRSs"). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, ASU 2011-04 requires additional fair value disclosures. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. The Company will adopt these provisions in first quarter 2012 and the Company does not expect these provisions to have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ("ASU 2011-05"), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. The amendment is effective for fiscal years beginning after December 15, 2011, and interim periods within that year. In December 2011, the FASB issued an amendment to an existing accounting standard which defers the requirement to present components of the reclassifications of other comprehensive income on the face of the income statement. The Company does not expect these standards to have a material impact on the Company's consolidated financial statements.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Testing Goodwill for Impairment* ("ASU 2011-08"). ASU 2011-08 amended Accounting Standards Codification Topic 350 ("ASC 350") to allow companies to first assess qualitative factors to determine whether existence of events or circumstances leads to a conclusion that it is not more likely than not that the fair value of a reporting unit is less than the carrying value. If such a conclusion is reached, then the two-step impairment test is not required to be performed. ASU 2011-08 is effective for the Company in 2012 and earlier adoption is permitted. The Company will adopt this standard in the first quarter of 2012 and the Company does not expect the standard to have a material impact on the Company's consolidated financial statements.

(2) Property and Equipment

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

	Years ended December 31,	
	2010 (1)	2011 (1)
Computer and other related equipment	$ 10,710	$ 13,671
Purchased and internally developed software	6,203	6,667
Furniture and fixtures	1,129	1,229
Leasehold improvements	1,665	1,805
	$ 19,707	$ 23,372
Less: accumulated depreciation and amortization	(14,997)	(17,185)
Property and equipment, net	$ 4,710	$ 6,187

(1) Includes the original cost and accumulated depreciation of fully-depreciated fixed assets which were $10.8 million and $13.3 million at December 31, 2010 and 2011, 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 had no internally developed software costs that had not commenced amortization as of December 31, 2010 and 2011, respectively.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

Depreciation and amortization expense incurred by the Company was approximately $3.6 million, $3.0 million and $2.8 million for the years ended December 31, 2009, 2010 and 2011, 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"). The Credit Agreement, as amended, matures and all outstanding borrowings are due in April 2014. 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, 2010 and 2011, 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. Certain of these lease agreements have free or escalating rent payment provisions or fund certain leasehold improvements which the Company accounts as a lease incentive. 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
2012	$ 2,124	$ 3,401	$ 5,525
2013	2,235	1,517	3,752
2014	2,287	1,127	3,414
2015	2,226	639	2,865
2016	2,267	447	2,714
2017 and after	2,910	—	2,910
Total minimum payments	$14,049	$ 7,131	$21,180

In June 2009, the Company entered into a lease agreement for office facilities in Seattle, Washington which commenced in the fourth quarter of 2009 and expires on March 2018. In December 2010, the Company entered into an amendment to the lease agreement from June 2009 for additional office space in Seattle, Washington, which commenced in December 2010 and expires in March 2018. During 2010 and 2011, the lessor paid approximately $779,000 and $204,000, respectively, towards certain leasehold improvements which the Company accounted for as a lease incentive and is amortizing as a reduction of rent expense over the lease term.

In May 2010, the Company entered into a lease agreement for office facilities in New York, New York which commenced in the second quarter of 2010 and expires in March 2018.

Rent expense incurred by the Company was approximately $1.7 million, $1.7 million and $2.1 million for the years ended December 31, 2009, 2010 and 2011, respectively.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

(5) Income Taxes

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

	Years ended December 31,		
	2009	2010	2011
United States	$(3,449)	$(3,518)	$5,819
Foreign	(138)	(142)	(247)
Income (loss) before provision for income taxes	$(3,587)	$(3,660)	$5,572

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

	Years ended December 31,		
	2009	2010	2011
Current provision (benefit)			
Federal	$(3,980)	$(2,168)	$ (249)
State	10	46	16
Deferred provision (benefit)			
Federal	4,198	2,004	1,895
State	—	—	—
Foreign	34	—	—
Tax expense (benefit) of equity adjustment for stock option exercises and restricted stock vesting	(1,888)	(605)	824
Other	101	106	127
Total income tax expense (benefit)	$(1,525)	$ (617)	$2,613

Income tax expense (benefit) differed from the amounts computed by applying the U.S. federal income tax rates of 34% for 2009, 2010, and 2011, respectively, to income (loss) before provision for income taxes as a result of the following:

	Years ended December 31,		
	2009	2010	2011
Income tax expense (benefit) at U.S. statutory rate	$(1,220)	$(1,244)	$1,895
State taxes, net of valuation allowance	(2)	30	45
Non-deductible stock compensation	624	757	645
Effect of non-U.S. operations, net of valuation allowance	81	48	84
Research tax credits	(1,333)	(240)	(722)
Other non-deductible expenses	325	32	666
Total income tax expense (benefit)	$(1,525)	$ (617)	$2,613

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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

	As of December 31,	
	2010	2011
Deferred tax assets:		
Accrued liabilities not currently deductible	$ 1,384	$ 1,842
Intangible assets-excess of financial statement over tax amortization	20,093	16,461
Goodwill impairment recognized on financial statements not tax	24,940	21,282
Stock-based compensation	4,890	7,809
Federal net operating losses and AMT credit carryforwards	—	1,480
State and city net operating loss carryforwards	3,759	4,481
Research & experimental tax credit carryforwards	323	1,302
Other	127	285
Gross deferred tax assets	55,516	54,942
Valuation allowance	(3,826)	(4,579)
Net deferred tax assets	51,690	50,363
Deferred tax liabilities:		
Excess of tax over financial statement depreciation	52	1,300
Total deferred tax liabilities	52	1,300
Net deferred tax assets	$51,638	$49,063

At December 31, 2010 and 2011, the Company has certain tax effected state, city, and foreign net operating loss (NOL) carryforwards of approximately $3.8 million and $4.6 million, respectively. The Company does not have a history of taxable income in the relevant jurisdictions and the state, city, and foreign net operating loss carryforwards will more likely than not expire unutilized. Therefore, the Company has recorded a 100% valuation allowance on the state, city, and foreign net operating loss carryforwards as of December 31, 2010 and 2011. The change in the valuation allowance in 2011 was approximately $753,000.

The Company has certain research and experimental tax credits which will begin to expire in 2029.

In connection with the purchase accounting for certain acquisitions, the Company has recorded approximately $152.9 million in goodwill and $77.4 million of intangible assets that are deductible over 15 years for federal tax purposes.

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 generation of sufficient taxable income to realize the benefit of the related tax deduction.

Although realization is not assured, the Company believes it is more likely than not, based on its operating performance, existing deferred tax liabilities, projections of future taxable income and tax planning strategies, that the Company's net deferred tax assets, excluding certain state and foreign net operating loss carryforwards, will be realized. In determining that it was more likely than not that the Company would realize the deferred tax assets, 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. The majority of the deferred tax assets have arisen due to deductions taken in the financial statements related to the impairment of goodwill and the

amortization of intangible assets recorded in connection with various acquisitions that are tax-deductible over 15 year periods. Based on projections of future taxable income and tax planning strategies, the Company expects to be able to recover these assets. The amount of the net deferred tax assets considered realizable, however, could be reduced in the near term if the Company's projections of future taxable income are reduced or if the Company does not perform at the levels it is projecting. This could result in increases to the valuation allowance for deferred tax assets and a corresponding increase to income tax expense of up to the entire net amount of deferred tax assets.

At December 31, 2010 and 2011, the Company had federal net operating loss carryforwards (excluding Jingle) of approximately $1.7 million which begin to expire in 2019. The Tax Reform Act of 1986 limits the use of net operating loss (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, 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.

In connection with the Jingle acquisition, the Company acquired federal net operating loss carryforwards (NOL). Where there is a "change in ownership" within the meaning of Section 382 of the Internal Revenue Code, the acquired federal net operating loss carryforwards are subject to an annual limitation. The Company believes 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 available. Accordingly, the Company has not recorded those amounts the Company believes it will not be able to utilize and has not included those NOL carryforwards in its deferred tax assets. The Company's preliminary estimate of NOL carryforwards that may be utilized is approximately $7.0 million, which will begin to expire in 2026. In 2011, the Company utilized approximately $2.8 million of the acquired NOL carryforwards.

During the years ended December 31, 2009, 2010 and 2011, the Company recognized excess tax benefits (shortfall) on stock option exercises, restricted stock vesting, and dividends paid on unvested restricted stock of approximately ($1.8) million, ($537,000), and $913,000, 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. The Company adjusts these contingencies in light of changing facts and circumstances, such as the outcome of tax audits. Audits of the Company's federal tax returns for 2005 through 2009, comprising approximately $463,000 of uncertain tax positions, were settled in 2011. 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.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

The reconciliation of our tax contingencies is as follows:

	December 31, 2011
Gross tax contingencies—January 1, 2010	$ 463
Gross increases to tax positions associated with prior periods	$ —
Gross increases to current period tax positions	$ 83
Settlements	$ —
Lapse of statute of limitations	$ —
Gross tax contingencies—December 31, 2010	$ 546
Gross increases to tax positions associated with prior periods	$ 66
Gross increases to current period tax positions	$ 156
Gross decreases to tax positions associated with prior periods	$ (362)
Settlements	$ (101)
Lapse of statute of limitations	$ —
Gross tax contingencies—December 31, 2011	$ 305

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 2007 are within the statue 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 consisted 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 November 2006, the Company's board of directors authorized a share 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. In 2008 and 2009, the Company's board of directors authorized various increases in the share repurchase program for the Company to repurchase up to 11 million shares in the aggregate (less shares previously repurchased under the share

repurchase program) of the Company's Class B common stock. In December 2011, the Company's board of directors authorized an increase in the share repurchase program for the Company to repurchase up to 12 million shares in the aggregate (less shares previously repurchased under the share repurchase program) of the Company's Class B common stock. Under the share repurchase program, repurchases may take place in the open market and in privately negotiated transactions and at times and in such amounts as the Company deems appropriate. 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. This stock 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, 2009, the Company repurchased approximately 2.8 million shares of Class B common stock for $10.7 million under this repurchase program. During the year ended December 31, 2010, the Company repurchased approximately 1.2 million shares of Class B common stock for $6.5 million under this repurchase program. During the year ended December 31, 2011, the Company repurchased approximately 883,000 shares of Class B common stock for $6.2 million under this repurchase program. In 2012, the Company has repurchased 136,000 shares of Class B common stock for a total cash expenditure of approximately $682,000.

During the years ended December 31, 2010 and 2011, the Company's board of directors authorized the retirement of 1.8 million and 1.0 million 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. During 2009, 2010 and 2011, 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 2009	$ 0.02	February 6, 2009	$ 741	February 17, 2009
April 2009	$ 0.02	May 4, 2009	$ 716	May 15, 2009
July 2009	$ 0.02	August 7, 2009	$ 724	August 17, 2009
October 2009	$ 0.02	November 6, 2009	$ 721	November 16, 2009
January 2010	$ 0.02	February 4, 2010	$ 706	February 15, 2010
April 2010	$ 0.02	May 5, 2010	$ 704	May 17, 2010
July 2010	$ 0.02	August 6, 2010	$ 705	August 16, 2010
October 2010	$ 0.02	November 5, 2010	$ 701	November 15, 2010
January 2011	$ 0.02	February 4, 2011	$ 712	February 15, 2011
April 2011	$ 0.02	May 6, 2011	$ 743	May 16, 2011
July 2011	$ 0.02	August 5, 2011	$ 738	August 15, 2011
October 2011	$ 0.02	November 5, 2011	$ 745	November 15, 2011

In January 2012, the Company's board of directors declared a quarterly dividend in the amount of $0.02 per share on its Class A common stock and Class B common stock which was paid on February 15, 2012 to the holders of record as of the close of business on February 3, 2012. This quarterly dividend totaled approximately $751,000.

(b) Stock Option Plan

The Company's stock incentive plan (the "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

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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). As a result of this provision, the authorized number of shares available under this Plan was increased by 1,852,653 to 14,133,174 on January 1, 2009 and by 1,768,421 to 15,901,595 on January 1, 2010 and by 1,774,752 to 17,676,347 on January 1, 2011 and by 1,877,411 to 19,553,758 on January 1, 2012. 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.

The Company did not grant any options with exercise prices less than the then current market value during 2009, 2010 and 2011.

The Company follows FASB ASC 718 and accounts for stock-based compensation for employees and non-employees under the fair value method and over the requisite service periods for the individual awards, which generally equals the vesting period. The vesting period of the stock-based award grants may be based on time or combination of time and market conditions. As a result, stock-based compensation consists of the following:

- all share-based compensation arrangements granted after January 1, 2006 (adoption date of FASB ASC 718) and for any such arrangements that are modified, cancelled, or repurchased after that date; and
- the portion of previous share-based awards for which the requisite service was not rendered as of January 1, 2006.

Stock-based compensation expense has been included in the same lines as compensation paid to the same employees in the consolidated statement of operations in accordance with SEC Accounting Bulletin No. 107, *Share-based Payment*. Stock-based compensation expense was included in the following operating expense categories as follows (in thousands):

	Twelve months ended December 31,		
	2009	2010	2011
Service costs	$ 474	$ 805	$ 1,291
Sales and marketing	1,400	799	1,505
Product development	592	1,015	1,416
General and administrative	7,131	8,213	10,931
Total stock-based compensation	$ 9,597	$ 10,832	$ 15,143

FASB ASC 718 requires the benefits of tax deductions in excess of the stock-based compensation cost to be classified as financing cash inflows rather than operating cash inflows. This amount is shown as “Excess tax benefit related to stock-based compensation” on the consolidated statement of cash flows.

During 2011, the Company’s Compensation Committee of the Board of Directors (the “Compensation Committee”) approved stock option grants of 213,000 and restricted stock grants of 326,000 to certain executive officers. The stock options vest 25% on the first annual anniversary of the grant date and 1/12th of the remainder will vest quarterly thereafter for the following three years. The restricted shares will vest 25% on each of the first, second, third and fourth annual anniversaries of the grant date. The fair value of these awards is $2.9 million and is being recognized over their respective vesting periods.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

During 2011, the Compensation Committee also approved equity awards with service and market vesting conditions to certain executive officers which included 270,000 stock option grants and grants of 90,000 restricted stock units. Each restricted stock unit represents the right to receive one share of the Company's Class B common stock upon satisfaction of certain vesting considerations. These equity awards were issued in three separate tranches and each successive tranche will vest on the later of (a) the 12, 21, or 30 month anniversary of the grant date, respectively, and (b) the Company's Class B common stock upon reaching certain average stock price targets for each tranche. The fair value of these equity awards is $1.1 million and is being recognized over their requisite service periods.

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, 2009, 2010 and 2011, 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 which commenced in 2007.

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

	Years ended December 31,		
	2009	2010	2011
Expected life (in years)	3.5 – 4.0	3.5 – 6.25	4.0 – 6.25
Risk-free interest rate	1.41% to 2.20%	1.00% to 2.08%	0.60% to 1.77%
Expected volatility	64% to 66%	66% to 68%	68% to 71%
Weighted average expected volatility	65%	67%	70%
Expected dividend yield	1.10%	0.91% to 1.10%	0.91%

During 2011, the Company issued equity awards which include stock options and restricted stock units 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 on 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 option grants with vesting based on a combination of certain service and market conditions for the periods presented:

	Years ended December 31,	
	2010	2011
Expected life (in years)	1.2 – 5.9	1.97 – 4.54
Risk-free interest rate	3.36% to 3.56%	1.94%
Expected volatility	61%	57%
Weighted average expected volatility	61%	57%
Expected dividend yield	0.91% to 1.63%	1.26%

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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

	Options and Restricted Stock available for grant	Number of options outstanding	Weighted average exercise price of options and restricted stock outstanding	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Balance at December 31, 2008	2,866,863	4,517,154	$ 12.21	6.79	
Increase to option pool January 1, 2009	1,852,653	—			
Options granted [1]	(1,533,300)	1,533,300	4.39		
Restricted stock granted	(1,178,100)	—			
Restricted stock forfeited	157,688	—			
Options exercised	—	(36,600)	2.23		
Options expired	815,388	(815,388)	13.96		
Options forfeited	497,315	(497,315)	10.69		
Balance at December 31, 2009	3,478,507	4,701,151	$ 9.59	5.61	
Increase to option pool January 1, 2010	1,768,421				
Options granted [2]	(2,376,450)	2,376,450	6.62		
Restricted stock granted	(1,613,000)	—			
Restricted stock forfeited	82,250	—			
Options exercised	—	(81,974)	4.54		
Options expired	296,214	(296,214)	13.49		
Options forfeited	288,824	(288,824)	7.12		
Balance at December 31, 2010	1,924,766	6,410,589	$ 8.48	7.20	
Increase to option pool January 1, 2011	1,774,752				
Options granted [2]	(1,735,950)	1,735,950	7.28		
Restricted stock granted	(1,603,899)	—			
Restricted stock forfeited	62,125	—			
Options exercised	—	(410,662)	4.28		
Options expired	277,775	(277,775)	14.47		
Options forfeited	254,318	(254,318)	6.70		
Balance at December 31, 2011	953,887	7,203,784	$ 8.24	6.81	$ 5,971
Options exercisable at December 31, 2011[3]		3,771,796	$ 9.42	5.28	$ 2,715

(1) Includes 880,000 stock options which vest over 2 years.
(2) Includes 765,000 and 313,400 stock options issued in 2010 and 2011, respectively, which have vesting based on a combination of certain service and market conditions.
(3) Includes 195,000 stock options which have vested based on meeting a combination of certain service and market conditions.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

The following table summarizes information concerning currently outstanding and exercisable options at December 31, 2011:

	Options Outstanding			Options Exercisable	
Range of exercise prices per share	Number Outstanding	Average remaining contractual life (in years)	Weighted Average Exercise price per share	Number exercisable	Weighted average exercise price per share
$ 3.00 – $ 4.52	439,671	3.75	$ 3.33	353,937	3.19
$ 4.53 – $ 4.63	714,056	7.59	4.63	706,743	4.63
$ 4.64 – $ 4.89	845,394	8.03	4.85	252,404	4.83
$ 4.90 – $ 5.63	416,335	7.47	5.41	156,538	5.44
$ 5.66 – $ 6.35	1,095,100	9.44	6.34	8,149	5.96
$ 6.38 – $ 8.76	608,175	5.43	7.21	299,611	6.73
$ 8.77 – $ 8.77	891,000	8.46	8.77	209,037	8.77
$ 8.81 – $11.01	744,067	6.39	9.89	346,963	10.20
$11.02 – $12.93	789,786	4.70	12.02	778,214	12.02
$12.94 – $24.54	660,200	3.62	18.57	660,200	18.57
	7,203,784	6.81	$ 8.24	3,771,796	$ 9.42

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

	Years ended December 31,		
	2009	2010	2011
Weighted average fair value of options granted	$ 4.39	$ 6.62	$ 3.54
Intrinsic value of options exercised (in thousands)	$ 79	$ 293	$1,885
Total grant date fair value of restricted stock vested (in thousands)	$9,898	$5,023	$4,056

At December 31, 2011, there was $7.9 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 2.6 years

During the years ended December 31, 2009, 2010 and 2011 gross proceeds recognized from the exercise of stock options was approximately $82,000, $372,000 and $1.8 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, 2009, 2010 and 2011, of approximately ($1.8) million, ($537,000) and $913,000, respectively, were recorded to additional paid in capital.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

Restricted stock awards and restricted stock unit activity for the years ended December 31, 2009, 2010 and 2011 is summarized as follows:

	Shares/ Units	Weighted Average Grant Date Fair Value
Unvested at December 31, 2008	2,348,968	$ 12.55
Granted	1,178,100	3.86
Vested	(827,578)	11.96
Forfeited	(157,688)	7.95
Unvested at December 31, 2009	2,541,802	$ 8.99
Granted [(1)]	1,613,000	6.67
Vested	(603,802)	8.32
Forfeited	(82,250)	4.52
Unvested at December 31, 2010	3,468,750	$ 8.13
Granted [(1)]	1,603,899	7.20
Vested	(721,500)	5.63
Forfeited	(62,125)	6.42
Unvested at December 31, 2011	4,289,024	$ 8.23

(1) Includes 255,000 and 104,100 restricted stock units issued in 2010 and 2011, respectively, which entitle the holder to receive one share of the Company's Class B common stock upon satisfaction of certain service and market conditions.

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

During the year ended December 31, 2011, the Company issued equity awards which include stock options and restricted stock units that have vesting based on a combination of certain service and market conditions. The compensation costs and derived service periods for restricted stock units 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. As of December 31, 2011, there was $19.5 million of total restricted stock compensation expense related to non-vested awards not yet recognized, which is expected to be recognized over a weighted average period of 2.2 years. The total grant date fair value of restricted stock awards vested during years ended December 31, 2009, 2010 and 2011 was $9.9 million, $5.0 million and $4.1 million, respectively. The Company realized a tax benefit in the years ended December 31, 2009, 2010 and 2011 related to the vesting of restricted shares of approximately $1.2 million, $640,000 and $544,000, respectively.

The following table summarizes stock-based compensation expense related to all stock-based awards (in thousands):

	Years ended December 31,		
	2009	2010	2011
Stock-based compensation:			
Total stock-based compensation included in net income (loss)	$9,597	$10,832	$15,143
Income tax benefit related to stock-based compensation included in net income (loss)	$2,723	$ 3,012	$ 5,048

In August 2009, vesting of approximately 118,000 restricted shares were fully accelerated in connection with separation agreements.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

(c) Employee Stock Purchase Plan

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

The original plan provided eligible employees the opportunity to purchase the Company's Class B common stock for amounts up to 15% of their compensation during offering periods. Under the plan, no employee was permitted to purchase stock worth more than $25,000 in any calendar year, valued as of the first day of each offering period.

In December 2005, the compensation committee of the Company's board of directors amended the 2004 Employee Stock Purchase Plan 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, 2009, 10,638 shares were purchased at prices ranging from $3.22 to $4.83 per share. During the year ended December 31, 2010, 3,304 shares were purchased at prices ranging from $3.66 to $9.06 per share. During the year ended December 31, 2011, 3,637 shares were purchased at prices ranging from $5.94 to $8.44 per share. At December 31, 2011, approximately 224,000 shares were available under the purchase plan for future issuance.

(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 or results of operations or liquidity.

In some agreements to which we are a party, we have 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, we 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 unaudited condensed 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. No cash matching contributions were made in 2011.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

(9) Acquisition

On April 7, 2011, the Company acquired 100% of the stock of Jingle, a provider of mobile voice search performance advertising and technology solutions in North America for the following consideration:

- Approximately $15.8 million in cash, net of cash acquired, and 1,019,103 shares of the Company's Class B common stock paid at closing; and
- Future consideration of (i) $17.6 million, net of certain working capital adjustments, on the first annual anniversary of the closing, and (ii) $18.0 million on the 18th month anniversary of closing, with the future consideration payable in either cash or shares of the Company's Class B common stock or some combination to be determined by the Company. Any shares issued in payment of the future consideration will be increased by 5%. The future consideration is recorded as current deferred acquisition payments in the balance sheet.
- Following the closing, the Company issued 462,247 shares of restricted stock at an aggregate value of approximately $3.3 million to employees of Jingle, subject to vesting for up to four years.

The Company accounted for the Jingle acquisition as a business combination. As a result of the acquisition, the Company added additional sources of mobile distribution to its call advertising network. The Company has progressed in its integration of Jingle's operations, including sales activities, and accordingly, revenues and earnings of the acquired operations are not readily separable.

The fair value of the shares of Class B common stock issued as part of the consideration paid was valued at $7.6 million using the Company's closing stock price of $7.46 per share at the acquisition date. The fair value of the future consideration payments of $34.7 million was discounted using a rate of approximately 2% based on the Company's incremental borrowing rate and is recorded on the balance sheet as deferred acquisition payments. Acquisition related costs of approximately $1.9 million for 2011 were primarily for professional fees to perform due diligence, historical audits and other procedures associated with the acquisition. Of the $1.9 million of acquisition related costs, we recognized approximately $372,000 for the future obligations of non-cancelable lease and other costs related to the Jingle office. The portion related to the non-cancelable lease is based on estimates of vacancy period and sublease income. The actual vacancy periods may differ from these estimates, and sublease income, if any, may not materialize. Accordingly, these estimates may be adjusted in future periods.

In connection with the acquisition, the Company acquired federal net operating loss carryforwards ("NOL"). Where there is a "change in ownership" within the meaning of Section 382 of the Internal Revenue Code, the acquired federal net operating loss carryforwards are subject to an annual limitation. The Company believes 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, the Company has not recorded those amounts the Company believes it will not be able to utilize and has not included those NOL carryforwards and research and development credit carryforwards in its deferred tax assets. The Company's preliminary estimate of NOL carryforwards that may be utilized is approximately $7.0 million. A preliminary deferred tax asset relating to these NOL carryforwards was recorded during the three months ended December 31, 2011 with a corresponding adjustment to goodwill of approximately $2.4 million. The Company has not completed its analysis of the limitations associated with these NOL carryfowards or the Company's ability to utilize them. The allocation of the purchase price is preliminary.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

A summary of the consideration for the acquisition is as follows (in thousands):

Cash	$ 16,563
Stock issued	7,603
Future consideration	34,695
Total	$ 58,861

The following summarizes the preliminary allocation of the fair value of the assets acquired and the liabilities assumed at December 31, 2011 (in thousands):

Cash acquired	$ 761
Accounts receivable	4,658
Deferred tax assets	2,567
Other current assets	62
Property and equipment	215
Other non-current assets	148
Intangible assets	11,966
Goodwill	47,334
Total assets acquired	67,711
Current liabilities	(5,512)
Deferred tax liabilities	(3,246)
Other non-current liabilities	(92)
Total liabilities assumed	(8,850)
Net assets acquired	$58,861

The acquired intangible assets of approximately $12.0 million consist primarily of customer and partner relationships, technology, trademarks and patents which will be amortized over 12 to 36 months (weighted average of 2.4 years) using the straight line method. The goodwill and acquired intangible assets will not be deductible for federal tax purposes.

The following unaudited pro forma financial information summarizes the combined results of operations of the Company and Jingle and is based on the historical results of operations of the Company and Jingle. The pro forma information reflects the results of operations of the Company as if the acquisition of Jingle had taken place on January 1, 2010. The unaudited pro forma financial information for the year ended December 31, 2010 combine the historical results of operations for the Company and Jingle for the year ended December 31, 2010. The unaudited pro forma financial information for the year ended December 31, 2011 combine the historical results of operations for the Company for the year ended December 31, 2011 and Jingle's historical results of operations during the pre-acquisition period from January 1, 2011 to April 7, 2011. The pro forma information includes adjustments for amortization of intangible assets, intercompany activity and accretion of interest expense related to the future consideration. The unaudited pro forma financial information is provided for information purposes only and is not necessarily indicative of the combined results that would have occurred had the acquisition taken place on the dates indicated, nor is it necessarily indicative of results that may occur in the future.

(in thousands)	Years ended December 31,	
	2010	2011
Revenue	$ 113,628	$ 152,517
Net income (loss)	(14,760)	1,830
Net income (loss) applicable to common stockholders	(14,959)	1,570

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

(10) Intangible Assets from Acquisitions

Intangible assets from acquisitions consisted of the following (in thousands):

	As of December 31, 2010		
	Gross Carrying Amount [1]	Accumulated Amortization [1]	Net
Trademarks/domains	$ 41,992	$ (40,415)	$ 1,577

	As of December 31, 2011		
	Gross Carrying Amount [1]	Accumulated Amortization [1]	Net
Advertiser relationship	$ 3,070	$ (897)	$ 2,173
Patents	318	(232)	86
Distribution partner relationship	4,830	(1,177)	3,653
Non-compete agreements	58	(43)	15
Trademarks/domains	40,539	(40,130)	409
Acquired technology	2,760	(1,008)	1,752
	$ 51,575	$ (43,487)	$ 8,088

(1) Excludes the original cost and accumulated amortization of fully-amortized intangible assets which were $41.7 million and $42.6 million at December 31, 2010 and 2011, respectively.

Amortizable intangible assets are amortized on a straight-line basis over their useful lives. Advertiser relationships, patents, distribution partner relationships, non-compete agreements, trademark/domains and acquired technology have weighted average useful life from date of purchase of 2.5 years, 1.0 year, 3.0 years, 1.0 year, 4.8 years and 2.0 years, respectively. Aggregate amortization expense incurred by the Company for the years ended December 31, 2009, 2010 and 2011, was approximately $5.5 million, $2.7 million and $5.5 million, respectively. Based upon the current amount of acquired intangible assets subject to amortization, the estimated amortization expense for the next five years is as follows: $4.7 million in 2012, $2.9 million in 2013, $433,000 in 2014, and $0 thereafter.

(11) Goodwill

Changes in the carrying amount of goodwill for the years ended December 31, 2010 and 2011 are as follows (in thousands):

Balance as of December 31, 2009	$ 35,438
Other	(101)
Balance as of December 31, 2010	35,337
Jingle acquisition	47,344
Other	(37)
Balance as of December 31, 2011	$ 82,644

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 under FASB ASC 350 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.

No impairment of the Company's goodwill and other intangible assets have been identified in 2011. The current business environment is subject to evolving market conditions and requires significant management judgment to interpret the potential impact to our assumptions. 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, or should other events occur indicating the remaining carrying value of its assets might be impaired, the Company would test its goodwill and intangible assets for impairment and may recognize an additional impairment loss.

(12) Intangible and other assets, net

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

	As of December 31,	
	2010	2011
Internet domain names	$ 15,683	$ 15,256
Less accumulated amortization	(13,877)	(14,535)
Internet domain names, net	1,806	721
Other assets:		
Registration fees, net	35	1,142
Other	229	328
Total intangibles and other assets, net	$ 2,070	$ 2,191

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. 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 year ended December 31, 2011 to renew or extend the term for domain names was $2.2 million. The weighted average renewal period for registration fees as of December 31, 2011 was approximately 1.0 year.

Amortization expense for Internet domain names for the years ended December 31, 2009, 2010 and 2011, was approximately $2.0 million, $1.6 million and $1.2 million, respectively.

Based upon the current amount of domains subject to amortization, the estimated expense for the next five years is as follows: $506,000 in 2012, $175,000 in 2013, $40,000 in 2014 and $0 thereafter.

(13) Subsequent Events

In January 2012, the Company's board of directors declared a regular quarterly dividend in the amount $0.02 per share on the Company's Class A and Class B common stock. The Company paid these dividends on February 15, 2012 to the holders of record as of the close of business on February 3, 2012. The Company paid approximately $751,000 for these quarterly dividends.

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, 2011 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, our management concluded that our internal control over financial reporting was effective as of December 31, 2011.

(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, 2011, 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, can not 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 2012 annual meeting of stockholders (the "2012 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, 2011.

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 "Investor Relations" and then "Governance Documents".

ITEM 11. EXECUTIVE COMPENSATION.

The information required under this item may be found in the 2012 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 2012 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 2012 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 2012 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, 2010 and 2011;
- Consolidated Statements of Operations for the years ended December 31, 2009, 2010 and 2011;
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 2009, 2010 and 2011;
- Consolidated Statements of Cash Flow for the years ended December 31, 2009, 2010 and 2011; 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 12, 2012.

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 Russell C. Horowitz 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/ RUSSELL C. HOROWITZ **Russell C. Horowitz** **Chairman and Chief Executive Officer** **(Principal Executive Officer)**	March 12, 2012
/S/ MICHAEL A. ARENDS **Michael A. Arends** **Chief Financial Officer** **(Principal Financial Officer)**	March 12, 2012
/S/ JOHN KEISTER **John Keister** **Executive Vice Chairman and Director**	March 12, 2012
/S/ DENNIS CLINE **Dennis Cline** **Director**	March 12, 2012
/S/ ANNE DEVEREUX **Anne Devereux** **Director**	March 12, 2012

Signature	Date
/S/ NICOLAS J. HANAUER **Nicolas J. Hanauer** **Vice Chairman and Director**	March 12, 2012
/S/ M. WAYNE WISEHART **M. Wayne Wisehart** **Director**	March 12, 2012

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. (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed with the SEC on March 10, 2010 and incorporated herein by reference).
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.
†††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.
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 Current Report on Form 8-K filed with the SEC on September 24, 2007 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 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 Current Report on Form 8-K filed with the SEC on December 10, 2007 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.
*10.9	Form of Restricted Stock Agreement (Filed with the Registrant's Current Report on Form 8-K filed with the SEC on October 3, 2006 and incorporated herein by reference).
†††*10.10	Form of Retention Agreement.
+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, 2007 filed with the SEC on March 11, 2008 and incorporated herein by reference).

Exhibit Number	Description of Document
+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 Quarterly Report on Form 10-Q filed with the SEC on August 11, 2008 and incorporated herein by reference).
+10.13	Advertising Insertion Order dated as of July 1, 2007, as amended, by and between the Registrant, MDNH, Inc. and Intelius Sales Company, LLC (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed with the SEC on March 10, 2010 and incorporated herein by reference).
*10.14	Form of Retention Agreement Amendment (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 7, 2009 and incorporated herein by reference).
*10.15	Revised Form of Retention Agreement (Filed with Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 7, 2009 and incorporated herein by reference).
*10.16	Form of Restricted Stock Agreement Amendment (Filed with Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 7, 2009 and incorporated herein by reference).
*10.17	First Amendment to Executive Employment Agreement effective as of May 8, 2009, by and between Michael A. Arends and the Registrant (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 7, 2009 and incorporated herein by reference).
*10.18	Revised Form of Executive Restricted Stock Agreement (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 7, 2009 and incorporated herein by reference).
*10.19	Form of Director Restricted Stock Agreement (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 7, 2009 and incorporated herein by reference).
10.20	Amended and Restated Lease effective as of June 5, 2009, between 520 Pike Street, Inc. and the Registrant (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 7, 2009 and incorporated herein by reference).
*10.21	Form of Executive Officer Stock Option Agreement (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 9, 2009 and incorporated herein by reference).
+10.22	Amendment No. 4 to Advertising Insertion Order effective as of December 31, 2009, by and between the Registrant, MDNH, Inc. and Intelius Sales Company, LLC (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed with the SEC on March 10, 2010 and incorporated herein by reference).
+10.23	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).
*10.24	Form of Notice of Grant of Executive Officer Stock Option (Performance-Based) (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 Notice of Grant of Executive Officer Stock Option (Time-Based) (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 Notice of Grant of Executive Officer Restricted Stock Units (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2010 and incorporated herein by reference).
*10.27	Form of Executive Officer Restricted Stock Agreement (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
*10.28	Form of Executive Officer Restricted Stock Units Agreement (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	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).
*10.30	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).
*10.31	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).
†10.32	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.
†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.
** In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Annual Report on Form 10-K shall be deemed to be "furnished" and not "filed."
(+) 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 2.7

ASSET PURCHASE AGREEMENT
BY AND AMONG
MARCHEX, INC.
MDNH, INC.
AREACONNECT LLC
AND THE SOLE MEMBER OF AREACONNECT LLC
DATED May 1, 2006

TABLE OF CONTENTS

Exhibits and schedules to the Asset Purchase Agreement have been omitted. The following is a list of omitted exhibits and schedules which Parent agrees to furnish supplementally to the Commission upon request.

EXHIBITS

A Form of Escrow Agreement
B Form of Bill of Sale, Assignment and Assumption Agreement
C Form of Executive Employment Agreement

SCHEDULES

1.1 Purchase of Assets
1.3 Assumed Liabilities
8.6 Consents

DISCLOSURE SCHEDULES

2.1 Corporate Organization
2.3 Consents and Approvals; No Violations
2.5 Financial Statements; Business Information

2.6 Absence of Undisclosed Liabilities
2.7 Absence of Certain Changes or Events
2.8 Legal Proceedings, etc.
2.9 Taxes
2.10 Title to Properties and Related Matters
2.11 Intellectual Property; Proprietary Rights; Employee Restrictions
2.12 Contracts
2.13 Employees; Employee Benefits
2.16 Major Partners

ASSET PURCHASE AGREEMENT

ASSET PURCHASE AGREEMENT (the "Agreement") dated as of May 1, 2006, by and among Marchex, Inc., a Delaware corporation (the "Parent"), MDNH, Inc., a Delaware corporation and a wholly-owned subsidiary of Parent (the "Buyer"), AreaConnect LLC, a Delaware limited liability company (the "Seller" or the "Company"), and the undersigned holder of all of the issued and outstanding ownership interests or units of the Company (the "Sole Member" or "Hamilton").

This Agreement sets forth the terms and conditions upon which the Buyer will purchase from the Company, and the Company will sell to the Buyer, all of the assets of the Company (other than the Retained Assets, as hereinafter defined) and the business and goodwill of the Company as a going concern, subject only to those liabilities of the Company which are specifically hereinafter described, for the consideration provided herein.

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

ARTICLE I

PURCHASE AND SALE OF ASSETS

1.1 Purchase of Assets. Upon the terms and subject to the conditions contained in this Agreement, at the Closing (as defined in Section 1.9 below), the Company shall sell, assign, transfer and convey to Buyer, and Buyer shall purchase, acquire and accept from the Company all of the Company's assets of every kind and description that are used or useful in the Company's Business (as defined in this Section 1.1), free and clear of any liens whatsoever (the "Purchased Assets") (other than those assets included in the Retained Assets as defined in Section 1.2 below) and subject only to the liabilities and obligations of the Company which are defined in Section 1.3 (the "Assumed Liabilities"). The Purchased Assets include without limitation:

(a) all of the Company's rights under all licenses, permits, authorizations, orders, registrations, certificates, approvals, consents and franchises, or any pending applications for any of the foregoing, to the extent such rights relate to the conduct of the Company's Business and in each case to the extent transferable or assignable;

(b) all of the interest of the Company and the Sole Member (whether held directly or indirectly through any other person or entity) in Intellectual Property (as such term is defined herein), patents, copyrights, trade names, service marks, trademarks, domain names, websites, licenses and sublicenses granted in respect thereto and rights thereunder, used in the conduct of the Company's Business, remedies against infringement thereof and rights of protection of interests therein and all related goodwill, including without limitation the Intellectual Property and related rights as set forth on Schedule 1.1(b) (the "Schedule 1.1(b) IP");

(c) all of the rights of the Company and the Sole Member (whether held directly or indirectly through any other person or entity) to any domain names, universal resource locators (URLs), websites, webpages and booking engines to the extent used in the conduct of the Company's Business as set forth on Schedule 1.1(c);

(d) all of the Company's rights under those contracts, agreements, licenses, leases, commitments, undertakings, arrangements, understandings or such other documents or instruments as set forth on Schedule 1.1(d), to the extent such rights relate to the conduct of the Company's Business (the "Purchased Contracts");

(e) all of the Company's claims, customer deposits, prepayments, prepaid expenses, refunds, causes of action, choses in action, rights of recovery, rights of setoff and rights of recoupment, to the extent any of the foregoing relate to the conduct of the Company's Business after the Closing and whether or not recorded in the books and records of the Company;

(f) all of the Company's (i) advertiser and customer lists and all other sales and marketing information, (ii) know-how, technology, drawings, engineering specifications, bills of materials, (iii) software, database and related programs used in the conduct of the Company's Business, and (iv) other intangible assets of the Company;

(g) Hamilton's personal computer and the servers leased by the Company as set forth on Schedule 1.1(g);

(h) all records which relate to the operations and finance of the Company, including, without limitation, books, records, ledgers, files, documents, correspondence, computer discs, diagrams, construction data, blueprints, instruction manuals, maintenance manuals, reports and similar documents used or useful in connection with the Company's Business (the "Records");

(i) the Company's corporate name and any trade names (current and any former, if applicable) and any and all goodwill associated therewith; and

(j) all other assets of the Company of every kind and description, tangible or intangible, to the extent used in the conduct of the Company's Business not provided for above.

For the purposes of this Agreement, the Company's Business shall mean the development, operation and/or management of Websites or information services relating to the yellow pages, white pages and local and geographical search and directory markets and the subcategories operated or supported by the Company to date.

1.2 Retained Assets. The Company will retain ownership of only the following assets (collectively, the "Retained Assets"):

(a) all of the Company's manager and member record books;

(b) all of the Company's trade and accounts receivable (billed and unbilled) immediately prior to the Closing Date (as defined herein);

(c) the Company's cash and cash equivalents immediately prior to the Closing Date;

(d) the Company's 401(k) plan and SEP retirement plan; and

(e) all tangible property, machinery, computers, printers, and equipment owned or leased by the Company.

1.3 Assumed Liabilities. The Assumed Liabilities shall consist only of the liabilities of the Company specifically listed on Schedule 1.3 attached hereto, including without limitation all obligations under the Purchased Contracts to the extent such obligations accrue at the time of consummation of and after the Closing (the "Assumed Liabilities"). The Buyer shall assume and agree to pay, perform and discharge the Assumed Liabilities, and will pay, perform and discharge the Assumed Liabilities as they become due.

1.4 Retained Liabilities. The liabilities and obligations which shall be retained by the Company (the "Retained Liabilities") shall consist of all liabilities of the Company other than Assumed Liabilities, including, without limitation, the following:

(a) all liabilities of the Company relating to indebtedness for borrowed money whether or not such liabilities are reflected on the unaudited balance sheet of the Company as of March 31, 2006, included in the Financial Statements (as defined herein);

(b) all liabilities of the Company or the Sole Member resulting from, constituting or relating to a breach of any of the representations, warranties, covenants or agreements of the Company or the Sole Member under this Agreement;

(c) all of the Company's trade and accounts payable (billed and unbilled);

(d) subject to Section 6.6(a), all liabilities of the Company for Taxes (as hereinafter defined) incurred on or prior to the Closing Date, including without limitation, with respect to the operations or income of the Company on or prior to the Closing Date, all sales, use and withholding Taxes, and any gain or income from the sale of the Purchased Assets and the transactions contemplated herein;

(e) all liabilities for all environmental, ecological, health, safety, products liability (except as specifically referred to herein) or other claims pertaining to the Company's business or the Purchased Assets which relate to time periods or events occurring on or prior to the Closing Date;

(f) all liabilities of the Company arising in connection with its operations unrelated to the Company's Business and all liabilities (including any liability pursuant to any claim, litigation or proceeding) in connection with the operation of the Company's Business prior to the Closing except as otherwise specifically provided herein;

(g) any liability of the Company based on its tortious or illegal conduct;

(h) any liability or obligation incurred by the Company in connection with the negotiation, execution or performance of this Agreement, including, without limitation, all legal, accounting, brokers', finders' and other professional fees and expenses;

(i) all liabilities incurred by the Company after the Closing Date; and

(j) all liabilities or obligations associated with the employees, consultants, contractors or agents of the Company, including but not limited to accrued vacation for all employees, consultants, contractors or agents, any liability or obligation under or with respect to any employment, consulting, independent contractor, agency or similar agreement any plan, unemployment or workers' compensation laws, sales commissions, or any liability or obligation arising from the termination of any employee, consultant, contractor or agent by the Company or any decision by the Buyer not to offer employment or continued service to any employee, consultant, contractor or agent of the Company.

1.5 Purchase Price. Upon the terms and subject to the conditions contained in this Agreement, in reliance upon the representations, warranties and agreements of the Company and the Sole Member contained herein, and in consideration of the sale, assignment, transfer and delivery of the Purchased Assets and in addition to the assumption by Buyer of the Assumed Liabilities, subject to Sections 1.6 and 1.7 below, Parent will pay or issue the following (a) an amount of cash at Closing equal to Twelve Million Dollars ($12,00,000.00) (the "Cash Consideration") to the Company, (b) 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 $4,000,000 by the Closing Market Price (as hereinafter defined) (the "Equity Consideration") to the Company, and (c) that number of shares of Parent Common Stock as shall be obtained by dividing $1,700,000 by the Closing Market Price (the "Restricted Equity Consideration") as provided in Section 6.8 to Hamilton. Such Cash Consideration, Equity Consideration and Restricted Equity 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 "Purchase Price." For purposes of this Agreement, the term "Closing Market Price" shall mean 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 Closing Date.

1.6 Distribution of Purchase Price. After payment of all fees and expenses incurred by the Company in connection with the this Agreement in accordance with Section 6.4 of this Agreement, at the Closing the Purchase Price shall be distributed as follows: (a) the Cash Consideration shall be wired to an account designated by the Company, less $1,200,000 which shall be placed in escrow to satisfy the obligations pursuant to Article XI hereof (the "Cash Escrow), (b) the Equity Consideration shall be distributed to the Sole Member on behalf of the Company as soon as practicable after the Closing and in any event within two (2) business days

of the Closing, less that number of shares of Parent Common Stock issued as part of the Equity Consideration as shall be obtained by dividing $1,210,000 by the Closing Market Price which shall be placed in escrow to satisfy the obligations pursuant to Article XI hereof (the "Equity Escrow"), and (c) the Restricted Equity Consideration shall be distributed to the Sole Member on behalf of the Company as soon as practicable after the Closing and in any event within two (2) business days of the Closing, less that number of shares of Parent Common Stock issued as part of the Restricted Equity Consideration as shall be obtained by dividing $255,000 by the Closing Market Price which shall be placed in escrow to satisfy the obligations pursuant to Article XI hereof (the "Restricted Equity Escrow" and together with the Equity Escrow, the "Stock Escrow").

1.7 Escrow. At Closing, Parent will deposit in escrow the Cash Escrow for the benefit of the Company and the Sole Member, and as soon as practicable after the Closing and in any event within two (2) business days after the Closing Parent will deposit in escrow the Stock Escrow for the benefit of the Company and the Sole Member (the Stock Escrow, together with the Cash Escrow, the "Escrow Deposit"). The Escrow Deposit shall be held by and registered in the name of U.S. Bank National Association, as escrow agent (the "Escrow Agent"), as security for the indemnification obligations under Article XI pursuant to the provisions of an Escrow Agreement (the "Escrow Agreement") in substantially the form of Exhibit A attached hereto.

1.8 Allocation of Purchase Price. Parent shall prepare an allocation of the Purchase Price (and all other capitalized costs) among the Purchased Assets in accordance with the Internal Revenue Code of 1986, as amended (the "Code"), Section 1060 and the Treasury regulations promulgated thereunder (and any similar provision of state, local or foreign law, as appropriate) for Seller's review and reasonable approval, not to be unreasonably withheld or delayed. Parent shall deliver such allocation to Seller within ninety (90) days after the Closing Date. Parent and Seller and their affiliates shall report, act, and file Tax Returns (including, but not limited to Internal Revenue Service Form 8594) in all respects and for all purposes consistent with such allocation prepared by Parent. Seller shall timely and properly prepare, execute, file and deliver all such documents, forms and other information as Parent may reasonably request to prepare such allocation. Neither Parent nor Seller shall take any position (whether in audits, Tax Returns or otherwise) which is inconsistent with such allocation unless required to do so by applicable law.

1.9 Closing. Unless this Agreement shall have been terminated and the transactions herein contemplated shall have been abandoned pursuant to Article X and subject to the satisfaction or waiver of the conditions set forth in Articles VIII and IX, the closing of the transactions described herein (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 VIII and IX, at the offices of Marchex, Inc., 413 Pine Street, Suite 500, Seattle, WA 98101, unless another date, time or place is agreed to in writing by the parties hereto. The date of such Closing is referred to herein as the "Closing Date" and the effective time of such Closing for accounting purposes shall be 12:01 a.m. PST on such date.

1.10 Execution and Delivery of Documents of Title by the Parties. At the Closing, the Company and the Buyer shall execute and deliver to Buyer the Bill of Sale, Assignment and Assumption Agreement, which is attached hereto as Exhibit B (the "Bill of Sale"). The Company shall also deliver such deeds, conveyances, bills of sale, certificates of title, assignments, assurances and other instruments and documents as Buyer may reasonably request in order to effect the sale, conveyance, and transfer of the Purchased Assets from the Company to the Buyer. Such instruments and documents shall be sufficient to convey to Buyer good and merchantable title in all of the Purchased Assets, free and clear of all liens. The Company will, from time to time after the Closing Date, take such additional actions and execute and deliver such further documents as Buyer may reasonably request in order more effectively to sell, transfer and convey the Purchased Assets to Buyer and to place Buyer in position to operate and control all of the Purchased Assets. At the Closing, Buyer shall execute and deliver to the Company such other documents as the Company may reasonably request in order to evidence Buyer's assumption of the Assumed Liabilities. Buyer will, from time to time after the Closing Date, take such additional action and deliver such further documents as the Company may reasonably request in order effectively to assume the Assumed Liabilities.

1.11 Withholding. Parent or Buyer shall be entitled to deduct and withhold from the Purchase Price payable or otherwise deliverable pursuant to this Agreement and the transactions contemplated herein or the Sole Member shall remit to the Parent, such amounts as the Parent or Buyer may be required to pay, deduct or withhold therefrom under the Code or under any provision of federal, state, local or foreign Tax law, including without limitation withholding taxes due, if any, with respect to the issuance and vesting of the Restricted Equity Consideration. 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

REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE SOLE MEMBER

The Company and the Sole Member jointly and severally represent and warrant to the Parent and Buyer 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.

2.1 Corporate Organization.

The Company is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware. 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 limited liability company and is in good standing in the jurisdictions set forth in Schedule 2.1(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 Buyer complete and correct copies of the Company's certificate of formation (certified by the secretary of state for the State of Delaware as of a recent date) and the Company's operating agreement (certified by the Secretary of the Company as of a recent date). Neither the Company's certificate of formation nor its operating agreement 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 or results of operations of the Company, taken as a whole.

2.2 Authorization. The Company has full corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The Sole Member has the legal capacity to enter into this Agreement and to carry out the transactions contemplated hereby. The execution, delivery and performance of this Agreement by the Company and the Sole Member have been duly and validly authorized and approved by all necessary corporate actions. This Agreement constitutes the legal and binding obligation of the Company and the Sole Member, enforceable against each of them 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.

2.3 Consents and Approvals; No Violations. Except as set forth on Schedule 2.3, the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, including specifically the transfer of the Purchased Assets to Buyer by the Company, will not: (i) violate or conflict with any provision of the Company's certificate of formation or operating agreement, (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.

2.4 Capitalization.

(a) The Sole Member is the beneficial and record owner of all of the outstanding ownership interests or units (the "Units") of the Company. All outstanding Units (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 formation or operating agreement of the Company or any agreement or document to which the Company is a party or by which it is bound.

Except as set forth above, as of the date of this Agreement no Units, 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 Units, 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 the Units. 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 Sole Member 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 Units 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).

The Company has never repurchased, redeemed or otherwise acquired or caused the repurchase, redemption or acquisition of any Units 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 Units or other securities of the Company. There is no claim or basis for such a claim to any portion of the Purchase Price except as provided in Section 1.5 hereto by any current or former member, option holder or warrant holder of the Company, or any other person.

There are no registration rights and 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) Since its date of formation, the Company has not owned, 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.

2.5 Financial Statements; Business Information. (a) Attached hereto as Schedule 2.5(a) are (i) the unaudited balance sheets of the Company as of December 31, 2004 and December 31, 2005 and the unaudited statements of operations for the fiscal periods then ended, and (ii) the unaudited balance sheet of the Company as of March 31, 2006 (the "Balance Sheet") and the statements of operations of the Company for the three (3) months then ended (hereinafter collectively referred to as the "Financial Statements"). Except as set forth on Schedule 2.5, the Financial Statements (i) have been prepared on a tax basis from the books and records of the Company, and (ii) have been prepared consistently during the periods covered thereby.

(b) Schedule 2.5(b) attached hereto sets forth certain statistics regarding the Company's Business including, but not limited to, information related to the Company's products, services and websites such as (i) number of domains registered as of the date hereof, (ii) number of unique users (defined by their IP address and user agent string visiting a particular domain in a calendar day) visiting the Company's websites resulting from domain type in traffic, search queries and other methods for the months of December 2005 and February and March of 2006, and (iii) number of accepted or valid click-throughs for the months of December 2005 and January, February and March 2006 (the "Data") which are true and correct in all material respects as of the dates stated in the schedule. Without limiting the materiality of any other representations, warranties and covenants of the Company and the Sole Member contained herein, the Company and the Sole Member specifically acknowledge that the accuracy in all material respects of such Data is material to Parent's and Buyer's decision to enter into the transactions contemplated by this Agreement and to pay the Purchase Price.

(c) To the best of its knowledge, the Company has not directly or indirectly installed, imbedded or derived any traffic from any Spyware or Malware Software sources. For the purposes hereof, "Malware Software" is any program or file that is harmful to a computer user, including without limitation, computer viruses, worms, and Trojan horses, and "Spyware" is programming that gathers information about a computer user without permission.

2.6 Absence of Undisclosed Liabilities. Except (i) as set forth or reserved against in the Balance Sheet and (ii) for obligations and liabilities incurred since March 31, 2006 in the ordinary course of business, which do not individually or in the aggregate exceed $10,000, the Company does not, except as set forth on Schedule 2.6, have any liabilities or obligations of any nature, whether accrued, absolute, contingent or otherwise. Schedule 2.6 sets forth a true and correct aged list of all accounts payable of the Company as of March 31, 2006. Except as set forth on Schedule 2.6, no part of the Assumed Liabilities or the Purchased Assets consists of or involves, directly or indirectly, any loan or other obligation outstanding from, or contract in effect with any member or for which any member is or may be liable under guaranty or otherwise, or any loan, obligation or contract with any of the members, managers, officers or directors of the Company or any affiliate of any of them.

2.7 Absence of Certain Changes or Events. Except as set forth on Schedule 2.7 hereto, since December 31, 2005, 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 2.7 or as set forth or reserved against in the Balance Sheet, since December 31, 2005, 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 its method of applying any such principle or practice, (iv) suffered any material damage, destruction or loss, whether or not covered by insurance, affecting its 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.

2.8 Legal Proceedings, etc. Except as set forth on Schedule 2.8, there are no suits, actions, claims, proceedings (including, without limitation, arbitral or administrative proceedings) or investigations pending or, to the knowledge of the Company or the Sole Member, threatened against the Company or its properties, assets or Business or, to the knowledge of the Company or the Sole Member, pending or threatened against any of the officers, directors, partners, managers, members, employees, agents or consultants of the Company in connection with the Business of the Company. There are no such suits, actions, claims, proceedings or investigations pending against the Company or, to the knowledge of the Company or the Sole Member, 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 2.8 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 material compliance with the terms of such settlements, judgments, orders, injunctions, decrees and awards. Schedule 2.8 hereto sets forth all suits, actions, claims, proceedings or investigations regarding any equity security of the Company which the Company or the Sole Member have ever been involved in or received notice of.

2.9 Taxes.

(a) Except as set forth on Schedule 2.9(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 (as defined herein) (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 2.9(a) hereof. The Company will establish, in the ordinary course of business and consistent with its past practices, any reserves (other than reserves for deferred Taxes established to reflect timing differences between book and Tax income) necessary 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 Buyer 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. 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) There are no actions or proceedings currently pending or, to the knowledge of the Company or the Sole Member, 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 Buyer. 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 and the Company does not have any liability for Taxes of any person (other than the Company) and any liability in respect of any tax as a result of being a member of any affiliated, consolidated, combined unitary or similar group under Treasury Regulation 1.1502-6 (or any similar provision of state, local or foreign law) or as a transferee, successor or guarantor or by contract, indemnification or otherwise.

(e) The Company has withheld all amounts from its respective employees, agents 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 amount will be required to be withheld under Section 1445 of the Code in connection with any of the transactions contemplated by this Agreement.

(g) 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 to the Company 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 neither does business in nor derives income from within or allocable to any state, local, territorial or foreign taxing jurisdiction other than those for which all Tax Returns have been furnished to the Buyer.

(j) The Company does not engage in a non-United States trade of business and does not have a permanent establishment outside the United States.

(k) The Company has not waived any statute of limitations with respect to Taxes or agreed to any extension of time with respect to any Tax assessment or deficiency, or the collection of any Tax, which remains outstanding; and the Company has delivered or made available to the Buyer 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, state, local and foreign income or franchise Tax Returns for the Company for all periods for which the statute of limitations has not run.

(l) The Assumed Liabilities do not include any obligation to make any payments or provide any benefits 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.

(m) The Company has not engaged in a "listed transaction" within the meaning of Treas. Reg. §1.6011-4T(b).

(n) Schedule 2.9(n) attached hereto sets forth each jurisdiction in which the Company files, or is required to file or has been required to file a Tax Return or is or has been liable for Taxes on a "nexus" basis.

(o) The Assumed Liabilities do not include any obligations to employees with respect to deferred compensation arrangements which might be subject to excise tax under Section 409A of the Code.

(p) At all times since its formation, the Company (and any predecessor of the Company) has been a validly electing S corporation within the meanings of Sections 1361 and 1362 of the Code for United States federal income tax purposes, as well as for any state or local income tax purposes, and the Company will be treated as an S corporation up to and including the day of the Closing Date.

(q) The Sole Member 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, 2005 and will do so with respect to all income, gain, loss, deduction and other Tax items of the Company for calendar year 2006 and for the period ending on the Closing Date.

(r) 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 (i) 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, or (ii) acquired the stock of any corporation which is a "qualified subchapter S subsidiary".

2.10 Title to Properties and Related Matters. (a) The Company has good and marketable title to, or a valid leasehold interest in, all of the Purchased Assets, 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 and (ii) liens for Taxes not yet due and payable) and the sale and purchase of the Purchased Assets to Buyer pursuant hereto shall vest in Buyer good and marketable title to, or a valid leasehold interest in, all of the Purchased Assets, free and clear of any claims, liens, pledges, security interests or encumbrances of any kind whatsoever subject to the above exceptions. The Purchased Assets are sufficient for the conduct of the Company's Business as presently conducted or proposed to be conducted and with the exception of the Retained Assets, the Purchased Assets constitute all of the assets used by the Company and its affiliates in the Company's Business.

(b) The Company does not own any real property or any interest in real property.

(c) 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. For the purposes hereof, Related Person shall mean any of the following (i) the Sole Member; (ii) the spouses and children of the Sole Member (collectively, "Near Relatives"); (iii) any trust for the benefit of the Sole Member or any of his respective Near Relatives; or (iv) any corporation, partnership, joint venture or other entity or enterprise owned or controlled by the Sole Member or by any of his respective Near Relatives.

(d) Schedule 2.10(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 Buyer complete and correct copies of each lease (and any amendments or supplements thereto) listed in Schedule 2.10(d) hereto. Except as set forth on Schedule 2.10(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 Member) 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 Member) a default by any other party under such lease; (iii) to the knowledge of the Company or the Sole Member, 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 2.10(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.

2.11 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) Set forth on Schedule 2.11(a) 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 Buyer 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 2.11(a), 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 2.11(a), 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 2.11(a), the Company owns exclusively, and has good title to, all copyrighted works that are Company products or which Company otherwise expressly purports to own. Except as set forth on Schedule 2.11(a), 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.

(b) Except as set forth on Schedule 2.11(b), 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.

(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 2.11(c) 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 2.11 (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 2.11(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) Except as set forth on Schedule 2.11(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 2.11(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 2.11(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 Member, no person has infringed 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 Buyer, and all current and former employees and contractors of Company have executed such an agreement. To the knowledge of the Company and the Sole Member, 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 Member, 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 2.11(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 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 Buyer are valid binding agreements of the parties thereto, enforceable in accordance with their terms. All of the rights of the Company and the Sole Member, 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 Buyer as part of the Purchased Assets hereunder and neither the Company and the Sole Member, as the case may be, has retained any rights with respect thereto. Except as set forth on Schedule 2.11(i), neither the Company, the Sole Member, nor, to the knowledge of the Company and the Sole Member, 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 agreements 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 the Sole Member 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.

(j) To the knowledge of the Company and the Sole Member, all information and content of the World Wide Web sites of the Company (other than information provided by users, customers and advertisers) is accurate and complete in all material respects.

(k) Schedule 2.11(k) lists all Open Source Materials that the Company has used in any way and describes the manner in which such Open Source Materials have been used by the Company in connection with the Business, including, without limitation, whether and how the Open Source Materials have been modified and/or distributed by the Company. Except as set forth in Schedule 2.11(k), the Company has not (i) incorporated any Open Source Materials into, or combined Open Source Materials with, any products of the Business, (ii) distributed Open Source Materials in connection with any products of the Business, or (iii) used Open Source Materials that (with respect to either clause (i), (ii) or (iii) above) (A) create, or purport to create, obligations for the Company with respect to software developed or distributed by the Company or (B) grant, or purport to grant, to any third party any rights or immunities under intellectual property rights. Without limiting the generality of the foregoing, the Company has not used any Open Source Materials that require, as a condition of use, modification and/or distribution of such Open Source Materials, that other software incorporated into, derived from or distributed with such Open Source Materials be (1) disclosed or distributed in source code form, (2) licensed for the purpose of making derivative works, or (3) redistributed at no charge. For purposes hereof, "Open Source Materials" shall mean all software or other material that is distributed as "free software", "open source software" or under a similar licensing or distribution model, including without limitation the GNU General Public License (GPL), GNU Lesser General Public License (LGPL), Mozilla Public License (MPL), BSD Licenses, the Artistic License, the Netscape Public License, the Sun Community Source License (SCSL) the Sun Industry Standards License (SISL) and the Apache License.

(l) Neither the Company nor the Sole Member collect or receive personally identifiable information that identifies or locates a particular person in connection with the conduct of the Company's Business.

2.12 Contracts. (a) Except as set forth on Schedules 2.12(a)-(d) 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;

(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 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 month;

(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 to the Buyer 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 2.12(a) hereto. Except as set forth on Schedule 2.12(b) hereto, (i) each contract listed in Schedule 2.12(a) hereto is in full force and effect; (ii) neither the Company nor (to the knowledge of the Company and the Sole Member) any other party is in default under any contract listed in Schedule 2.12 (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 by the Company or (to the knowledge of the Company and the Sole Member) a default by any other party under such contract; and (iii) to the knowledge of the Company and the Sole Member, there are no disputes or disagreements between the Company and any other party with respect to any contract listed in Schedule 2.12 (a) hereto.

(c) Except as set forth on Schedule 2.12(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) Except as set forth on Schedule 2.12(d) hereto, each of the contracts set forth on Schedules 2.12(a)-(d) hereto, is and always has been in compliance with 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.

2.13 Employees; Employee Benefits

(a) Schedule 2.13(a) hereto sets forth the names of all current employees of and independent contractors providing services to the Company (the "Employees"). Any person who has provided or is providing services to the Company and who has not or will not receive an IRS W-2 form has been classified as an independent contractor in full compliance with federal and state wage and hour laws and the Company has fully and accurately reported such independent contractors compensation on IRS forms 1099 when required to do so.

(b) Neither the Company nor 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") maintains, contributes to, or has any liability or contingent liability for any 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, or any other employee benefit plan, program or arrangement, including, without limitation, an "employee benefit plan" within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

2.14 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 Member, is there any inquiry, investigation or proceeding relating thereto.

2.15 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 by which it or any of its properties or assets is bound, that will prevent the use by the Buyer, after the Closing Date, 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 Member, 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.

2.16 Major Partners. Schedule 2.16 hereto sets forth a complete and correct list of the ten (10) largest partners of the Company in terms of revenue recognized in respect of such partners during the three (3) months ended March 31, 2006 and during the twelve (12) months ended December 31, 2005, showing the amount of revenue recognized for each such partner, as the case may be, during such period. To the knowledge of the Company and the Sole Member, except as set forth on Schedule 2.16 hereto, the Company has not received any notice or other communication (written or oral) from any of the partners listed in Schedule 2.16 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 partner and the Company.

2.17 Insurance. The Company does not carry any insurance policies with respect to its Business.

2.18 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 Member. 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 5.3) with parties other than Buyer. No valid claim exists against the Company or, based on any action by the Company, against the Buyer 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.

2.19 Third Party Audits and Investigations. There are no ongoing audits or investigations of the Company with respect to the Business by any Governmental Entity or other third party, including, without limitation, any party to a contract with the Company.

2.20 Disclosure. The Company has not failed to disclose to Buyer 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 Member 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 Member 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 III

REPRESENTATIONS AND WARRANTIES OF THE SOLE MEMBER

Sole Member represents and warrants to the Parent and Buyer as follows:

(i) Sole Member understands that the shares of Parent Common Stock to be issued to such Sole Member as part of the Purchase Price 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 Member in this Agreement. Such Sole Member understands that the Parent and Buyer is relying, in part, upon such Sole Member's representation and warranties contained in this Article III for the purpose of determining whether this transaction meets the requirements for such exemptions.

(ii) Sole Member has such knowledge, skill and experience in business, financial and investment matters so that such Sole Member 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 such Sole Member has deemed it appropriate to do so, such Sole Member 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) Sole Member is an "accredited investor" within the meaning of Regulation D under the Securities Act.

(iv) Sole Member has made, either alone or together with such Sole Member's advisors, such independent investigation of the Parent, Buyer, its management and related matters as such Sole Member 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 such Sole Member and such advisors have received all information and data that such Sole Member 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.

(v) Sole Member has reviewed such Sole Member's financial condition and commitments, alone and together with such Sole Member's advisors, and, based

on such review, such Sole Member is satisfied that (A) the Sole Member has adequate means of providing for the Sole Member'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 Member's entire investment in the Parent Common Stock, (B) the Sole Member 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 Member is capable of bearing the economic risk of an investment in the Parent Common Stock for the indefinite future. Such Sole Member shall furnish any additional information about the Sole Member reasonably requested by the Parent or Buyer to assure the compliance of this transaction with applicable federal and state securities laws.

(vi) Notwithstanding Article XII, Sole Member understands that the shares of the Parent Common Stock to be received by the Sole Member 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 Member 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. Sole Member further understands that applicable state securities laws may impose additional constraints upon the sale of securities. As a consequence, the Sole Member understands that such Sole Member may have to bear the economic risk of an investment in the Parent Common Stock to be received by such Sole Member pursuant to the transactions contemplated hereby for an indefinite period of time.

(vii) Except as provided in Article XII, Sole Member 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.

(viii) 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."

ARTICLE IV

REPRESENTATIONS AND WARRANTIES
OF THE PARENT AND BUYER

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

4.1 Corporate Organization. Each of the Parent and Buyer is a corporation duly organized and validly existing and in good standing under the laws of the State of Delaware. Parent and Buyer have all requisite corporate power and authority to own, operate and lease the properties and assets Parent and/or Buyer now owns, operates and leases and to carry on Parent's and/or Buyer's business as presently conducted. The Parent and Buyer are 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 Buyer 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). Each of the Parent and Buyer has previously made available to the Company complete and correct copies of 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 its Secretary as of a recent date). Neither the Certificate of Incorporation nor the By-Laws of the Parent or the Buyer 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 the Buyer), taken as a whole.

4.2 Authorization. The Parent and the Buyer have full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement by the Parent and Buyer has been duly and validly authorized and approved by all necessary corporate action on the part of the Parent and Buyer. This Agreement constitutes the legal and binding obligation of the Parent and Buyer, enforceable against them 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).

4.3 Consents and Approvals; No Violations. 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 Buyer; (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 and/or Buyer is party, 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 Buyer 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 Buyer 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 and/or Buyer, 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.

4.4 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 Buyer'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 Buyer 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 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 4.4 shall also be deemed to be made with respect to all filings made with the SEC on or before the Closing Date.

4.5 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.

4.6 Compliance with Applicable Law. Neither the Parent nor Buyer is 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.

4.7 Validity of Shares. Assuming the accuracy of the representations and warranties contained in Article III, the shares of Parent Common Stock to be issued in connection with this Agreement 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 Sole Member, will be issued in compliance with applicable U.S. Federal and state securities laws and will be free of any liens or encumbrances, except for the Company's repurchase rights of the Restricted Equity Consideration pursuant to Section 6.9 below.

4.8 S-3 Eligibility. Parent is eligible to use Form S-3 for the registration for resale of the shares of Parent Common Stock to be received by the Sole Member on behalf of the Company in connection with the Closing.

4.9 Disclosure. Neither Parent nor Buyer has failed to disclose to the 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 or the Buyer to perform its respective obligations under this Agreement in any material respect. No representation or warranty by Parent or Buyer contained in this Agreement and no statement contained, when considered together as a whole, in any of the Buyer 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 or Buyer 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 V

CONDUCT OF BUSINESS PRIOR TO THE CLOSING DATE

5.1 Conduct of Business of the Company. During the period commencing on the date hereof and continuing until the Closing Date, the Company and the Sole Member 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 its Units without prior notice to the Parent;

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

(d) will not amend its certificate of formation;

(e) will not issue, or agree to issue, any Units, or any options, warrants or other rights to acquire Units, or any securities convertible into or exchangeable for Units;

(f) will not combine, split or otherwise reclassify any of its Units;

(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 Closing Date;

(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, beneficiaries or any other person 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 Member) 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 (other than domain names in the ordinary course) 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 change the method of accounting of the Company, make any Tax elections, enter any settlement or compromise of any Tax claim or liability with any taxing authority, or amend any Tax Return that would adversely affect Parent or its subsidiaries without the consent of Parent;

(p) will not make any payments to officers, directors, partners, managers, or members other than in the ordinary course;

(q) will not enter into any agreements with contractors or consultants (or amend or authorize additional work orders with respect to any such existing agreements) except as contemplated by this Agreement;

(r) 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; and

(s) will not sell any domain names (or enter into any agreement to do the foregoing) without the Parent’s consent which shall not be unreasonably withheld or delayed.

5.2 Retained Liabilities From and after the date hereof through the Closing Date and following the Closing, unless otherwise agreed to in writing by the parties hereto, the Company agrees to pay, perform and fully discharge all of the Retained Liabilities as they become due, provided that if the Company disputes in good faith the payment of any such Retained Liabilities, then the Company shall not be obligated to perform and fully discharge such Retained Liability until the dispute is resolved.

5.3 Other Negotiations. Neither the Company nor the Sole Member will (nor will they permit any of their respective officers, directors, managers, consultants, 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 X, 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 VI

ADDITIONAL AGREEMENTS

6.1 Access to Properties and Records. The Company will provide (or will cause to be provided) to Buyer its 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 Buyer's authorized advisors such additional financial, tax and operating data and other information pertaining to its business as Buyer shall from time to time reasonably request. All of such data and information shall be kept confidential by the Buyer unless and until the transactions contemplated herein are consummated pursuant to the NDA Agreement (as hereinafter defined).

6.2 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. Without limiting the foregoing, prior to the Closing, the Seller shall cause all Company Intellectual Property contained on notebook and desktop computer hard drives used by

Employees, independent contractors, agents and subcontractors of the Company to be transferred to a server designated by the Parent that is included in the Purchased Assets in order to make such Company Intellectual Property fully accessible and usable by the Parent and/or Buyer after the Closing Date.

6.3 Material Events. At all times prior to the Closing Date, 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 VIII or Article IX hereof.

6.4 Fees and Expenses. The Parent, Buyer 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.

6.5 Supplements to Disclosure Schedules. From time to time prior to the Closing Date, 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.

6.6 Tax Matters.

(a) All Taxes, whether imposed on the Company, any of the Company's subsidiaries, the Sole Member, the Parent or Buyer or any of their respective affiliates, successors or assigns, resulting from the transactions contemplated herein or any other activities involving the Company prior to the Closing or otherwise on account of this Agreement, shall be paid by the Company or the Sole Member when due, and the Company or the Sole Member shall, at his, her or its own expense, file all necessary Tax Returns with respect to all such Taxes; except that any Taxes imposed by the State of Washington upon the transfer of tangible assets hereunder shall be paid by the Buyer and collected by the Company at Closing. Parent or Buyer shall be solely responsible for all Taxes arising from the ownership and use of the Purchased Assets by the Parent or Buyer beginning after the Closing Date (the "Post-Closing Period").

(b) Neither the Company nor the Sole Member 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. The Company and the Sole Member 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. Neither the Company nor the Sole Member shall take or allow any action that would result in the termination of the Company's subsidiaries' status taxed as a qualified subchapter S subsidiary within the meaning of Section 1361(b)(3)(B) of the Code on or prior to the Closing Date.

6.7 Post-Closing Adjustment. To the extent payment is received following the Closing by the Company under a Purchased Contract in respect of any Post-Closing Period, such payment or portion thereof which relates to the Post-Closing Period shall be promptly paid by the Company to the Buyer. To the extent payment is received following the Closing by the Buyer under a Purchased Contract in respect of any pre-closing period, such payment or portion thereof which relates to the pre-closing period shall be promptly paid by the Buyer to the Company. To the extent any payment is made following the Closing by the Buyer under a Purchased Contract in respect of any pre-closing period, such payment or portion thereof which relates to the pre-closing period shall be promptly reimbursed by the Company to the Buyer.

6.8 Restricted Stock Grants. With respect to the shares of Restricted Equity Consideration issued to Hamilton, such shares shall vest hereunder as follows: 16.67% on the six (6) month anniversary of the Closing Date and thereafter at a rate of an additional 16.67% on the last day of each successive six (6) month period over the next two and one half years. One hundred percent (100%) of the shares of Restricted Equity Consideration not already vested shall become immediately vested in the event of an Acceleration Event. Hamilton will have the option to file a protective 83(b) election under Section 83(b) of the Code as soon as practicable after the Closing and in any event within thirty (30) days after the Closing. Hamilton agrees to furnish Parent and Buyer with copies of such filed 83(b) election, if any. While the shares of Restricted Equity Consideration are subject to vesting pursuant to this Section 6.8, Hamilton will have all rights with respect thereto (including, without limitation, the right to vote the shares and the right to dividends paid on the shares, if any), except that Hamilton shall not have the right to possession and sale thereof. For the purposes hereof, Acceleration Event shall be defined as (a) a Change of Control (as defined herein), (b) the termination of employment without cause (as defined in the respective employment agreement) of Hamilton by Parent, or (c) the resignation of Hamilton for Good Reason (as defined in the respective employment agreement). For the purposes hereof, "Change of Control" shall mean (x) an event when any "person", as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), except for an existing stockholder of Parent as of the date hereof, is or becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Parent representing more than fifty percent (50%) of the voting power of the Parent's then outstanding securities, other than as a result of the purchase of equity securities directly from the Parent in connection with a financing transaction; (y) the consummation of a merger or consolidation of the Parent with or into another entity or any other corporate reorganization, if more than fifty percent (50%) of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Parent immediately prior to such merger, consolidation or other reorganization; or (z) the Parent sells, transfers or otherwise disposes of (in one transaction or a series of related transactions) all or substantially all of its respective assets or adopts any plan or proposal for its liquidation or dissolution. A Change of Control shall not occur if the person, surviving entity, or transferee is a wholly-owned (direct or indirect) subsidiary of Parent; provided, however, that an Acceleration Event shall occur upon a Change of Control of such wholly-owned subsidiary.

6.9 Repurchase Right

(a) In the event that Hamilton's employment relationship or consulting relationship, as the case may be, with Parent terminates, for any reason whatsoever, whether due to voluntary or involuntary action, death, disability or otherwise, the Parent shall have the right to repurchase at the Repurchase Price (as defined herein) all or any portion of the shares of Restricted Equity Consideration that are not already vested, which right may be exercised at any time and from time to time within ninety (90) days after the date of such termination or such longer period as may be determined in good faith by the Parent if such later repurchase is deemed necessary by the Parent for treatment of its stock as Qualified Small Business Stock under Section 1202 of the Code and regulations promulgated thereunder.

(b) Parent may exercise its right of repurchase of such shares of Restricted Equity Consideration held by Hamilton by providing written notice to Hamilton stating the number of shares to be repurchased, at a purchase price of $.01 per share (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, Parent shall deliver the Repurchase Price to Hamilton, 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.

6.10 Change of Name; Use of Name The Company will take all action necessary or appropriate to change its corporate name, effective immediately after the Closing, to a name that does not include the words "areaconnect.com" and will take such other actions within its power as may be necessary or appropriate to permit Parent and Buyer immediately after the Closing to use the Company's present corporate name and any other name substantially similar thereto. From and after the effective date of the change of the Company's corporate name, the Company and the Sole Member shall not use the name "areaconnect.com" or any other name which includes such words or which is substantially similar thereto for any purpose except to refer to the business conducted by the Company prior to the Closing.

6.11 Financial Statements. At the request of the Parent at any time following the Closing and until the filing of Parent's Annual Report on Form 10-K for the year ended December 31, 2006, the Company and the Sole Member shall use their reasonable best efforts and shall cooperate to facilitate an audit by the Company's independent auditor of the financial statements of the Company for the periods as requested by the Parent (the "Audit") to have been completed promptly to Parent's reasonable satisfaction at Parent's sole expense. The Company and the Sole Member shall deliver a customary management representation letter in connection with the completion of such Audit in a form as reasonably agreed to by the Parent, Company and Sole Member. The Company and the Sole Member agree as requested by Parent from time to time, after the Closing Date to use reasonable best efforts to assist Parent in promptly obtaining

the consent of the Company's independent auditor to include such auditor's report on the foregoing in any and all Parent SEC flings. In the event of a breach of this Section 6.11 by the Company and/or the Sole Member, Parent shall be entitled to disbursement to it of the entire amount of the Cash Escrow and the Equity Escrow.

ARTICLE VII

COVENANTS OF THE COMPANY AND THE SOLE MEMBER

The Company and the Sole Member hereby agree that for a period of three (3) years following the Closing Date, that he or it 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 or regularly traded in the over-the-counter market), which is directly or indirectly in competition with the Company's Business (the "Competitive Activity"). The Company and the Sole Member agree that, for a period of three (3) years following the Closing Date hereof, he or it 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 Parent that were such with respect to the Parent at any time during the one (1) year immediately preceding the date hereof or that become such with respect to the Parent at any time during the one (1) year immediately following the date hereof, including but not limited to the customers set forth on Schedule 8.6. Such person's obligations under this Article VII shall survive termination of cessation of his, her or its employment or consultancy with the Company (if applicable) and the expiration thereof shall be tolled for any period during which such person is in breach thereof.

ARTICLE VIII

CONDITIONS TO THE OBLIGATIONS OF THE PARENT AND BUYER

The obligation of the Parent and Buyer 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 Buyer in their sole discretion):

8.1 Representations and Warranties True. The representations and warranties of the Company and the Sole Member 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 Buyer 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 Member shall have executed and delivered to the Parent and Buyer a certificate to that effect with respect to all such representations and warranties made by the Sole Member.

8.2 Performance. The Company and the Sole Member 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 Buyer 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 Member shall have executed and delivered to the Parent and Buyer a certificate to that effect with respect to all such obligations required to have been performed or complied with by the Sole Member on or before the Closing Date.

8.3 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.

8.4 Purchase Permitted by Applicable Laws; Legal Investment. Parent's and Buyer's purchase of and payment for the Purchased Assets (i) shall not be prohibited by any applicable law or governmental order, rule, ruling, regulation, release or interpretation, (ii) shall not subject Parent or Buyer to any penalty, Tax, liability or, in the reasonable judgment of Parent or Buyer, any other onerous condition under or pursuant to any applicable law, statute, ordinance, regulation or rule, (iii) shall not constitute a fraudulent or voidable conveyance under any applicable law, and (iv) shall be permitted by all applicable laws, statutes, ordinances, regulations and rules of the jurisdictions to which Parent or Buyer is subject.

8.5 Proceedings Satisfactory. All proceedings taken in connection with the purchase and sale of the Purchased Assets, the Agreement and all documents and papers relating thereto, shall be in form and substance reasonably satisfactory to Parent and Buyer.

8.6 Consents. Those approvals, consents, licenses, permits, orders, waivers and authorizations required to be obtained by the Company or the Sole Member in connection with the transactions contemplated by this Agreement and the sale of the Purchased Assets as set forth on Schedule 8.6 attached hereto shall have been obtained and shall be in full force and effect.

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

(i) Executive Employment Agreement, in the form attached hereto as Exhibit C, executed by Hamilton;

(ii) Confidentiality, Assignment of Inventions and Employment-at-Will Agreements for consultants and employees, in a form satisfactory to Buyer, executed by each of the employees of the Company;

(iii) the Escrow Agreement, duly executed by the Escrow Agent; and

(iv) the Company shall deliver to Parent a Form W-9 and the Sole Member shall deliver to Parent a Form W-9 or Form W-8, as appropriate, on the Closing and prior to any payment of the Cash Consideration. The Sole Member shall furnish Parent with an affidavit, stating, under penalty of perjury, the Sole Member's United States taxpayer identification number.

8.8 Material Adverse Effect. There shall not have occurred any event which is or reasonably could result in a Company Material Adverse Effect.

8.9 Approval. The Sole Member shall have executed and delivered to Parent and Buyer a written consent or resolution in which such Sole Member voted all of the Units owned by such Sole Member in favor of the transactions contemplated herein and the adoption of this Agreement.

8.10 Supporting Documents. The Company shall have delivered to the Parent and Buyer a certificate (i) of the Secretary of State of the State of Delaware dated within five (5) days 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 formation of the Company, as in effect on the date of such certification; (x) that attached thereto is a true and complete copy of the operating agreement 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 Sole Member of the Company, authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby; 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; and (iii) satisfactory evidence that tax good standings, waivers of state tax liens and state tax clearance certificates from each such jurisdiction in which the Company does Business has been applied for, and in lieu of each such certificate, the Company will provide to the Parent and Buyer written evidence as to the absence of any liens of any kind on the Purchased Assets, which will be certified by the Company's Treasurer.

8.11 Release of Liens. The Company shall have obtained to the satisfaction of the Parent and Buyer, the releases from creditors needed to terminate any security interests in the Purchased Assets granted by the Company.

8.12 Transfer of Purchased Assets. All of the Purchased Assets shall have been effectively sold, transferred, conveyed and assigned to Buyer, free and clear of any and all liens, and all of the deeds, conveyances, bills of sale, certificates of title, assignments, assurances and other instruments and documents referenced in Section 1.10 shall have been executed, delivered and, if appropriate, filed or recorded. The Company shall have satisfied any and all indebtedness relating to Purchased Assets, other than the Assumed Liabilities.

8.13 Purchase of Schedule 1.1(b) IP. Contemporaneously with the Closing, the Company and the Sole Member shall purchase all of the Schedule 1.1(b) IP which is used in the operation of the Company's Business as such Business was operating prior to the Closing.

ARTICLE IX

CONDITIONS TO THE OBLIGATIONS OF THE COMPANY AND THE SOLE MEMBER

The obligation of the Company and the Sole Member 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 Member in their sole discretion):

9.1 Representations and Warranties True. The representations and warranties of each of the Parent and Buyer 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 Buyer shall have delivered to the Company and the Sole Member a certificate (with respect to Parent, signed on its behalf by its Chief Executive Officer and with respect to Buyer, signed on its behalf by its Vice President) to that effect with respect to all such representations and warranties made by such entity.

9.2 Performance. The Parent and Buyer 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 the Parent and Buyer shall have delivered to the Company and the Sole Member a certificate (with respect to Parent, signed on its behalf by its Chief Executive Officer and with respect to Buyer, signed on its behalf by its Vice 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.

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 Parent and/or Buyer which would have a material adverse effect on the transactions contemplated hereby or is reasonably likely to result in a Parent Material Adverse Effect.

9.4 Proceedings Satisfactory. All proceedings taken in connection with the purchase and sale of the Purchased Assets, the Agreement and all documents and papers relating thereto, shall be in form and substance reasonably satisfactory to Company.

9.5 Consents. All approvals, consents, licenses, permits, orders, waivers and authorizations required to be obtained by Parent or Buyer in connection with the transactions contemplated by this Agreement and the sale of the Purchased Assets shall have been obtained and shall be in full force and effect.

9.6 Additional Agreements. The Parent shall have executed and delivered counterparts of the Executive Employment Agreement referred to in Section 8.7(i) hereof and the Escrow Agreement referred to in Section 8.7(iii) hereof, together with counterparts signed by the Escrow Agent.

9.7 Cash Consideration, Equity Consideration and Restricted Equity Consideration; Escrow Deposit.

(a) At the Closing, the Parent shall deliver and distribute the Purchase Price in accordance with Section 1.6.

(b) At Closing, Parent shall deliver to the Escrow Agent (i) the Cash Escrow at Closing by wire, and (ii) the Stock Escrow as soon as practicable after the Closing and in any event within two (2) business days after the Closing.

9.8 Supporting Documents.

(a) Each of the Parent and Buyer shall have delivered to the Company and the Sole Member (i) a certificate of the Secretary of State of the State of Delaware dated within five (5) days of the Closing Date, certifying as to such entity's corporate legal existence and good standing, (ii) a certificate of its corporate Secretary, dated the Closing Date, certifying on its behalf (w) that attached thereto is a true and complete copy of such entity's Certificate of Incorporation, as in effect on the date of such certification; (x) that attached thereto is a true and complete copy of such entity's By-Laws, as in effect on the date of such certification; (y) that attached thereto is a true and complete copy of all resolutions adopted by such entity's Board of Directors authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby; and (z) to the incumbency and specimen signature of each officer of such entity executing on behalf such entity this Agreement and the other agreements related hereto.

ARTICLE X

TERMINATION

10.1 Termination. This Agreement may be terminated at any time prior to the Closing Date:

(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 Closing Date shall not have occurred on or before May 15, 2006, provided, however, that the right to terminate this Agreement pursuant to this Section 10.1(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 Closing Date 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.

10.2 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 Buyer) their respective officers or directors, except for Sections 6.4 and 13.6, and the last sentence of Section 6.1, 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.

ARTICLE XI

INDEMNIFICATION; SURVIVAL OF
REPRESENTATIONS AND WARRANTIES

11.1 Indemnity Obligations. (a) Subject to Sections 11.3 and 11.4 hereof, the Company and the Sole Member by adoption of this Agreement and approval of the transactions contemplated hereby, jointly and severally agree to indemnify and hold the Parent and Buyer (including their respective 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 Member set forth in Article II 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 or any agreement entered into in connection herewith including, without limitation, the covenants set forth in Article VII of 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.

(b) Subject to Sections 11.3 and 11.4 hereof, the Company and the Sole Member by adoption of this Agreement and approval of the transactions contemplated hereby, jointly and severally agree to indemnify and hold the Parent and Buyer (including their respective representatives and affiliates) 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 Member set forth in Article III of this Agreement, or any Schedule or certificate delivered by the Sole Member 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 Member which are contained in this Agreement or any agreement entered into in connection herewith, including, without limitation, the covenants set forth in Article VII of this Agreement.

11.2 Notification of Claims.

(a) Subject to the provisions of Section 11.3 below, in the event of the occurrence of an event pursuant to which the Parent shall seek indemnity pursuant to Section 11.1, the Parent shall provide the Company and the Sole Member with prompt written notice (a "Claim Notice") of such event and shall otherwise promptly make available to the Company and the Sole Member, 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 Company and the Sole Member, 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 indemnified party.

(b) The Company and the Sole Member 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 Company and the Sole Member shall be borne by the Company and the Sole Member (including from the Escrow Deposit). 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 Company and the Sole Member, which consent shall not be unreasonably withheld, delayed or conditioned.

(c) Notwithstanding the other provisions of this Section 11.2, if a third party asserts (other than by means of a lawsuit) that Parent or Buyer is liable to such third party for a monetary or other obligation for which Parent expects to seek indemnification pursuant to this Article XI, and Parent reasonably determines that it has a valid business reason to fulfill such obligation, then (i) Parent shall be entitled to satisfy such obligation, without prior notice to or consent from the Company or the Sole Member, (ii) Parent may subsequently make a claim for indemnification in accordance with the provisions of this Article XI, and (iii) Parent shall be reimbursed, in accordance with the provisions of this Article XI, for any such Losses for which it is entitled to indemnification pursuant to this Article XI (subject to the right of the Seller to dispute the Parent's entitlement to indemnification, or the amount for which it is entitled to indemnification, under the terms of this Article XI).

11.3 Duration. All representations and warranties set forth in this Agreement and any Schedules or certificates delivered pursuant hereto or thereto, and all covenants, agreements and undertakings of the parties 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 VII shall survive the Closing Date until the three (3) year anniversary of the Closing Date; (b) Indemnifiable Matters arising from breaches of the representations and warranties set forth in Section 2.9 and the covenant contained in Section 6.6 shall survive the Closing Date for the applicable statute of limitations period; (c) Indemnifiable Matters arising from breaches of the representations and warranties set forth in Sections 2.1, 2.2, 2.3, 2.4, 2.14 and Article III, shall each survive the Closing Date until the three (3) year anniversary of the Closing Date; and (d) Indemnifiable Matters arising from breaches of the representation and warranties set forth in Section 2.11 (except for domain and/or trademark infringement claims

which shall not constitute Excluded Obligations) shall survive the Closing Date until the four (4) year anniversary of the Closing Date (all such obligations in (a), (b) (c) and (d), collectively, the "Excluded Obligations"). Notwithstanding the foregoing, claims relating to or arising from fraud shall be independent of, and shall not be limited by, the Agreement and shall survive the Closing Date indefinitely.

11.4 Escrow. The Escrow Deposit shall be held by the Escrow Agent 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. If the Closing occurs, Parent and Buyer agree that their right to indemnification pursuant to this Article XI shall constitute Parent's and Buyer's sole and exclusive remedy and recourse against the Company and the Sole Member for Losses attributable to any Indemnifiable Matters. Except with respect to the Excluded Obligations or as otherwise provided in Section 6.11, the maximum liability of the Company and the Sole Member collectively shall be limited to the Escrow Deposit and the maximum liability of the Company and the Sole Member collectively for the Excluded Obligations shall be limited to the Purchase Price (less any amount previously recovered under this Article XII from the Escrow Deposit). To the extent that all or any portion of the Equity Consideration or Restricted Equity Consideration is sold, disposed of or otherwise transferred by the Sole Member 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. Any Losses payable pursuant to this Section 11.4 from the Escrow Deposit shall be paid from the Cash Escrow and the Stock Escrow in the same proportion as such Cash Escrow and Stock Escrow bears to the total Escrow Deposit. Notwithstanding anything to the contrary contained herein, neither the Company nor the Sole Member shall have any liability for indemnification pursuant to this Article XI for Indemnifiable Matters arising from breaches of any representations and warranties until the aggregate Losses are in excess of $25,000, at which point the Company and the Sole Member shall be liable for the full amount of all Losses including such amount.

11.5 No Contribution. The Company and the Sole Member hereby waive, acknowledge and agree that the Company and the Sole Member shall not have and shall not exercise or assert (or attempt to exercise or assert), any right of contribution or right of indemnity against the Parent or Buyer in connection with any indemnification payments which the Company or the Sole Member are required to make under this Article XI.

11.6 Registration Rights. The provisions of Section 12.5 hereof and not this Article XI shall govern any claim for indemnification pursuant to Article XII.

11.7 Treatment of Indemnity Payments. All payments made pursuant to this Article XI pertaining to any indemnification obligations shall be treated as adjustments to the Purchase Price for Tax purposes and such agreed treatment shall govern for purposes of this Agreement, unless otherwise required by law.

ARTICLE XII

REGISTRATION RIGHTS

12.1 Registrable Shares. For purposes of this Agreement, "Registrable Shares" shall mean the shares of Parent Common Stock issued as the Equity Consideration and Restricted Equity Consideration.

12.2 Required Registration. Parent shall use reasonable best efforts to promptly prepare and file with the SEC a registration statement on Form S-3 under the Securities Act with respect to the resale of the Registrable Shares (the "Registration Statement") no later than forty five (45) days following the Closing and shall use reasonable best efforts to effect all such registrations, qualifications and compliances (including, without limitation, obtaining appropriate qualifications under applicable state securities or "blue sky" laws and compliance with any other applicable governmental requirements or regulations) as the Sole Member may reasonably request and that would permit or facilitate the sale of Registrable Shares (provided however that Parent shall not be required in connection therewith to qualify to do business or to file a general consent to service of process in any such state or jurisdiction).

12.3 Effectiveness; Suspension Right.

(a) Parent will use its reasonable best efforts to cause the Registration Statement to become effective under the Securities Act (including without limitation the filing of any amendments or other documents necessary for such effectiveness) and to maintain the effectiveness of the Registration Statement and other applicable registrations, qualifications and compliances until one (1) year from the Closing Date (collectively, the "Registration Effective Period"), and from time to time will amend or supplement the Registration Statement and the prospectus contained therein as and to the extent necessary to comply with the Securities Act, the Exchange Act and any applicable state securities statute or regulation, subject to the following limitations and qualifications.

(b) Following such date as the Registration Statement is first declared effective, the Sole Member will be permitted to offer and sell the Registrable Shares registered therein during the Registration Effective Period in the manner described in the Registration Statement provided that the Registration Statement remains effective and has not been suspended and provided further that with respect to the Restricted Equity Consideration, only Registrable Shares that shall have "vested" pursuant to Section 6.8 hereof may be offered and sold.

(c) Notwithstanding any other provision of this Article XII, Parent shall have the right at any time to require that the Sole Member suspend further open market offers and sales of Registrable Shares pursuant to the Registration Statement whenever, and for so long as, in the reasonable judgment of Parent, upon written advice of counsel, there is in existence material undisclosed information or events with respect to Parent (the "Suspension Right"). In the event Parent exercises the Suspension Right, such suspension will continue for the period of time reasonably necessary for disclosure to occur at the earliest time that such disclosure would

not have a material adverse effect on Parent, as determined in good faith by Parent after consultation with counsel. Parent will promptly give the Sole Member written notice of any such suspension and will use its best efforts to minimize the length of the suspension.

12.4 Expenses. The costs and expenses to be borne by Parent for purposes of this Article XII shall include, without limitation, printing expenses (including a reasonable number of prospectuses for circulation by the Sole Member), legal fees and disbursements of counsel for Parent, "blue sky" expenses, accounting fees and filing fees, but shall not include underwriting commissions or similar charges, legal fees (if any) and disbursements of counsel for the Sole Member.

12.5 Indemnification.

(a) To the extent permitted by law, Parent will indemnify and hold harmless the Sole Member, any underwriter (as defined in the Securities Act) for the Sole Member, its officers, directors, Sole Member or partners and each person, if any, who controls the Sole Member or underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (A) any untrue statement or alleged untrue statement of a material fact contained or incorporated by reference in the Registration Statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (B) the omission or alleged omission to state or incorporate by reference therein a material fact required to be stated or incorporated by reference therein, or necessary to make the statements included or incorporated by reference therein not misleading, or (C) any violation or alleged violation by Parent of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law; and Parent will pay to such Sole Member, underwriter or controlling person, any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this Section 12.5(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the consent of Parent (which consent may not be unreasonably withheld); nor shall Parent be liable in any such case for any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon (i) a Violation which occurs in reliance upon and in conformity with written information furnished by such Sole Member expressly for use in the Registration Statement, or (ii) a Violation that would not have occurred if the Sole Member had delivered to the Parent the version of the Prospectus most recently provided by Parent to the Sole Member as of a date prior to such sale.

(b) To the extent permitted by law, each Sole Member will indemnify and hold harmless Parent, each of its directors, each of its officers who has signed the Registration Statement, each person, if any, who controls Parent within the meaning of the Securities Act, any underwriter, and any controlling person of any such underwriter, against any losses, claims,

damages, or liabilities (joint or several) to which any of the foregoing persons may become subject, under the Securities Act, the Exchange Act or other federal or state law, insofar as, and only to the extent that, such losses, claims, damages, or liabilities (or actions in respect thereto) arise out of or are based upon any Violation (which includes without limitation the failure of such Sole Member to comply with the prospectus delivery requirements under the Securities Act, and the failure of such Sole Member to deliver the most current prospectus provided by Parent prior to the date of such sale), in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Sole Member expressly for use in the Registration Statement or such Violation is caused by such Sole Member's failure to deliver to the Parent of such Sole Member's Registrable Shares a prospectus (or amendment or supplement thereto) that had been made available to the Sole Member by Parent prior to the date of the sale; and such Sole Member will pay any legal or other expenses reasonably incurred by any person intended to be indemnified pursuant to this Section 12.5(b) in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this Section 12.5(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of such Sole Member, which consent shall not be unreasonably withheld. The aggregate indemnification and contribution liability of such Sole Member under this Section 12.5(b) shall not exceed the net proceeds received by such Sole Member in connection with sale of shares pursuant to the Registration Statement.

(c) Each person entitled to indemnification under this Section 12.5 (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought and shall permit the Indemnifying Party to assume the defense of any such claim and any litigation resulting therefrom, provided that counsel for the Indemnifying Party who conducts the defense of such claim or any litigation resulting therefrom shall be approved by the Indemnified Party (whose approval shall not unreasonably be withheld), and the Indemnified Party may participate in such defense at such party's expense, and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Section 12.5 unless the Indemnifying Party is materially prejudiced thereby. No Indemnifying Party, in the defense of any such claim or litigation, shall (except with the consent of each Indemnified Party) consent to entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation. Each Indemnified Party shall furnish such information regarding itself or the claim in question as an Indemnifying Party may reasonably request in writing and as shall be reasonably required in connection with the defense of such claim and litigation resulting therefrom.

(d) To the extent that the indemnification provided for in this Section 12.5 is held by a court of competent jurisdiction to be unavailable to an Indemnified Party with respect to any loss, liability, claim, damage or expense referred to herein, then the Indemnifying Party, in lieu of indemnifying such Indemnified Party hereunder, shall contribute to the amount paid or payable by such Indemnified Party as a result of such loss, liability, claim, damage or expense in

such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one had and of the Indemnified Party on the other in connection with the statements or omissions which resulted in such loss, liability, claim, damage or expense, as well as any other relevant equitable considerations. The relative fault of the Indemnifying Party and of the Indemnified Party shall be determined by reference to, among other things, whether the untrue of alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Indemnifying Party or by the Indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

12.6 Procedures for Sale of Shares Under Registration Statement.

(a) Notice and Approval. If a Sole Member shall propose to sell (which may include an intent to sell an aggregate number of shares over a thirty (30) day period) Registrable Shares pursuant to the Registration Statement, he, she or it shall notify Parent of its intent to do so (including the proposed manner and timing of all sales) at least one (1) full trading day prior to such sale, and the provision of such notice to Parent shall conclusively be deemed to reestablish and reconfirm an agreement by such Sole Member to comply with the registration provisions set forth in this Agreement. Unless otherwise specified in such notice, such notice shall be deemed to constitute a representation that any information previously supplied by such Sole Member expressly for inclusion in the Registration Statement (as the same may have been superseded by subsequent such information) is accurate as of the date of such notice. At any time within such one (1) trading-day period, Parent may refuse to permit such Sole Member to resell any Registrable Shares pursuant to the Registration Statement; provided, however, that in order to exercise this right, Parent must deliver a certificate in writing to such Sole Member to the effect that a delay in such sale is necessary because a sale pursuant to the Registration Statement in its then-current form without the addition of material, non-public information about Parent, could constitute a violation of the federal securities laws.

(b) Delivery of Prospectus. For any offer or sale of any of the Registrable Shares by a Sole Member in a transaction that is not exempt under the Securities Act, such Sole Member, in addition to complying with any other federal securities laws, shall deliver a copy of the final prospectus (or amendment of or supplement to such prospectus) of Parent covering the Registrable Shares in the form furnished to the Sole Member by Parent to the Parent of any of the Registrable Shares on or before the settlement date for the purchase of such Registrable Shares.

(c) Copies of Prospectuses. Subject to the provisions of this Section 12.6, when a Sole Member is entitled to sell and gives notice of its intent to sell Registrable Shares pursuant to the Registration Statement, Parent shall, within two (2) trading days following the request, furnish to such Sole Member a reasonable number of copies of a supplement to or in amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such Registrable Shares, such prospectus shall not as of the date of delivery to such Sole Member include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statement therein not misleading or incomplete in the light of the circumstances then existing.

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 Member to:

AreaConnect LLC
18415 High Street
Edmonds, WA 98020

with copies to:

Cairncross & Hempelmann, P.S.
524 Second Avenue, Suite 500
Seattle, WA 98104
Attention: Dwight Wheaton II, Esq.

(b) if to the Parent or Buyer, to:

Marchex, Inc.
413 Pine Street, Suite 500
Seattle, WA 98101
Attention: Ethan A. Caldwell, General Counsel

with copies to:

DLA Piper Rudnick Gray Cary US LLP
33 Arch Street, 26th Floor
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 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 (i) by the Parent to any successor to its business or to any affiliate as long as the Parent remains ultimately liable for all of the Parent's obligations hereunder, and (ii) on or before Closing, Buyer may assign its rights hereunder as Buyer to a wholly-owned subsidiary of Parent.

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 and permitted assigns and any other parties indemnified under Article XI.

13.6 Public Announcements. Promptly after the date of execution hereof and the Closing Date, the Parent shall issue a press release in such form as reasonably acceptable to the Company and none of the parties hereto shall, except as agreed by the Buyer and the Company, 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 and the Company dated March 7, 2006 (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 (subject to the disclosure requirements of any applicable laws and/or governmental regulations).

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 as to matters within the scope thereof and, as to all other matters, shall be governed by and construed with the laws of the State of Washington, 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 Seattle, Washington 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 ASSET PURCHASE AGREEMENT

IN WITNESS WHEREOF, the parties 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

BUYER:

MDNH, INC.

By: /s/ Jorja Cox
Name: Jorja Cox
Title: Vice President

SELLER:

AREACONNECT LLC

By: /s/ Colin Hamilton
Name: Colin Hamilton
Title: Owner

SOLE MEMBER:

/s/ Colin Hamilton
Colin Hamilton

Exhibit 2.8

ASSET PURCHASE AGREEMENT
BY AND AMONG
MARCHEX, INC.
MDNH, INC.
OPEN LIST, INC.
BRIAN HARNIMAN
THE STOCKHOLDERS OF OPEN LIST, INC.
AND WITH RESPECT TO ARTICLES VI AND XI ONLY
BRAD GERSTNER, AS STOCKHOLDER REPRESENTATIVE
DATED May 26, 2006

TABLE OF CONTENTS

Exhibits and schedules to the Asset Purchase Agreement have been omitted. The following is a list of omitted exhibits and schedules which Parent agrees to furnish supplementally to the Commission upon request.

EXHIBITS

A Form of Escrow Agreement
B Form of Bill of Sale, Assignment and Assumption Agreement
C Form of Executive Employment Agreement

SCHEDULES

DISCLOSURE SCHEDULES

ASSET PURCHASE AGREEMENT

ASSET PURCHASE AGREEMENT (the "Agreement") dated as of May 26, 2006, by and among Marchex, Inc., a Delaware corporation (the "Parent"), MDNH, Inc., a Delaware corporation and a wholly-owned subsidiary of Parent (the "Buyer"), Open List, Inc., a Delaware corporation (the "Seller" or the "Company"), Brian Harniman ("Harniman") the undersigned holders of all of the issued and outstanding capital stock of the Company (collectively, the "Stockholders") and with respect to Articles VI and XI hereof, Brad Gerstner (in such capacity, the "Stockholder Representative"). Harniman and the Stockholders are collectively referred to herein as the "Equityholders").

This Agreement sets forth the terms and conditions upon which the Buyer will purchase from the Company, and the Company will sell to the Buyer, all of the assets of the Company (other than the Retained Assets, as hereinafter defined) and the business and goodwill of the Company as a going concern, subject only to those liabilities of the Company which are specifically hereinafter described, for the consideration provided herein.

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged the parties hereby agree as follows:

ARTICLE I

PURCHASE AND SALE OF ASSETS

1.1 Purchase of Assets. Upon the terms and subject to the conditions contained in this Agreement, at the Closing (as defined in Section 1.9 below), the Company shall sell, assign, transfer and convey to Buyer, and Buyer shall purchase, acquire and accept from the Company all of the Company's assets of every kind and description that are used or useful in the Company's Business (as defined in this Section 1.1), free and clear of any liens whatsoever (the "Purchased Assets") (other than those assets included in the Retained Assets as defined in Section 1.2 below) and subject only to the liabilities and obligations of the Company which are defined in Section 1.3 (the "Assumed Liabilities"). The Purchased Assets include without limitation:

(a) all of the Company's rights under all licenses, permits, authorizations, orders, registrations, certificates, approvals, consents and franchises, or any pending applications for any of the foregoing, to the extent such rights relate to the conduct of the Company's Business, and in each case to the extent transferable or assignable;

(b) all of the interest of the Company and the Equityholders (whether held directly or indirectly through any other person or entity) in intellectual property, patents, copyrights, trade names, service marks, trademarks, domain names, websites, licenses and sublicenses granted in respect thereto and rights thereunder, used in the conduct of the

Company's Business, remedies against infringement thereof and rights of protection of interests therein and all related goodwill;

(c) all of the rights of the Company and the Equityholders (whether held directly or indirectly through any other person or entity) to any domain names, universal resource locators (URLs), websites, webpages and booking engines to the extent used in the conduct of the Company's Business as set forth on Schedule 1.1(c);

(d) all of the Company's rights under those contracts, agreements, licenses, leases, commitments, undertakings, arrangements, understandings or such other documents or instruments as set forth on Schedule 1.1(d), to the extent such rights relate to the conduct of the Company's Business (the "Purchased Contracts");

(e) all of the Company's claims, customer deposits, prepayments, prepaid expenses, refunds, causes of action, choses in action, rights of recovery, rights of setoff and rights of recoupment, to the extent any of the foregoing relate to the conduct of the Company's Business after the Closing and whether or not recorded in the books and records of the Company;

(f) all of the Company's (i) advertiser and customer lists and all other sales and marketing information, (ii) know-how, technology, drawings, engineering specifications, bills of materials, (iii) software, database and related programs used in the conduct of the Company's Business, and (iv) other intangible assets of the Company;

(g) all tangible property, machinery, computers, printers, servers and equipment owned or leased by the Company;

(h) all records which relate to the operations and finance of the Company, including, without limitation, books, records, ledgers, files, documents, correspondence, computer discs, diagrams, construction data, blueprints, instruction manuals, maintenance manuals, reports and similar documents used or useful in connection with the Company's Business (the "Records");

(i) the Company's corporate name and any trade names (current and any former, if applicable) and any and all goodwill associated therewith; and

(j) all other assets of the Company of every kind and description, tangible or intangible, to the extent used in the conduct of the Company's Business not provided for above.

For the purposes of this Agreement, the Company's Business shall mean the creation, development, operation and/or management of search technologies, products and services, including without limitation, the extraction, aggregation, classification, segregation and display of data, information and content in the travel, entertainment, recreation, real estate, health, personal and home services, automotive markets and any other categories the Company has operated, supported and/or developed to date or is in the process of operating, supporting and developing.

1.2 Retained Assets. The Company will retain ownership of only the following assets (collectively, the "Retained Assets"):

(a) all of the Company's minute and stock record books;

(b) all of the Company's trade and accounts receivable (billed and unbilled) immediately prior to Closing Date (as defined herein);

(c) the Company's cash and cash equivalents as set forth on the Company's Balance Sheet (as defined herein) at the time of the Closing**;**

(d) all of the Company's rights under the insurance policies issued on the life of any of its officers, directors, employees or consultants; and

(e) All Company Tax refunds and credits relating to Taxes and periods described in Section 1.4(d).

1.3 Assumed Liabilities. The Assumed Liabilities shall consist only of the liabilities of the Company specifically listed on Schedule 1.3 attached hereto, including without limitation all obligations under the Purchased Contracts to the extent such obligations accrue at the time of consummation of and after the Closing (the "Assumed Liabilities"). The Buyer shall assume and agree to pay, perform and discharge the Assumed Liabilities, and will pay, perform and discharge the Assumed Liabilities as they become due.

1.4 Retained Liabilities. The liabilities and obligations which shall be retained by the Company (the "Retained Liabilities") shall consist of all liabilities of the Company other than Assumed Liabilities, including, without limitation, the following:

(a) all liabilities of the Company relating to indebtedness for borrowed money whether or not such liabilities are reflected on the unaudited balance sheet of the Company as of March 31, 2006, included in the Financial Statements (as defined herein);

(b) all liabilities of the Company or the Equityholders resulting from, constituting or relating to a breach of any of the representations, warranties, covenants or agreements of the Company or the Equityholders under this Agreement;

(c) all of the Company's trade and accounts payable (billed and unbilled);

(d) all liabilities of the Company for Taxes (as hereinafter defined), including without limitation, with respect to the operations or income of the Company through consummation of the Closing, all sales, use and withholding Taxes, and any gain or income from the sale of the Purchased Assets and the transactions contemplated herein;

(e) all liabilities for all environmental, ecological, health, safety, products liability (except as specifically referred to herein) or other claims pertaining to the Company's

business or the Purchased Assets which relate to time periods or events occurring on or prior to the Closing Date;

(f) all liabilities of the Company arising in connection with its operations unrelated to the Company's Business and all liabilities (including any liability pursuant to any claim, litigation or proceeding) in connection with the operation of the Company's Business prior to the Closing except as otherwise specifically provided herein;

(g) any liability of the Company based on its tortious or illegal conduct;

(h) any liability or obligation incurred by the Company in connection with the negotiation, execution or performance of this Agreement, including, without limitation, all legal, accounting, brokers', finders' and other professional fees and expenses;

(i) all liabilities incurred by the Company after the Closing Date; and

(j) all liabilities or obligations associated with the employees, consultants, contractors or agents of the Company, including but not limited to accrued vacation for all employees, consultants, contractors or agents, any liability or obligation under or with respect to any employment, consulting, independent contractor, agency or similar agreement any plan, unemployment or workers' compensation laws, sales commissions, or any liability or obligation arising from the termination of any employee, consultant, contractor or agent by the Company or any decision by the Buyer not to offer employment or continued service to any employee, consultant, contractor or agent of the Company.

1.5 Purchase Price; Treatment of Options; Special Grant.

(a) Upon the terms and subject to the conditions contained in this Agreement, in reliance upon the representations, warranties and agreements of the Company and the Equityholders contained herein, and in consideration of the sale, assignment, transfer and delivery of the Purchased Assets and in addition to the assumption by Buyer of the Assumed Liabilities, subject to Sections 1.6 and 1.7 below, Parent will pay or issue the following to the Company (a) an amount of cash at Closing equal to Six Million Dollars ($6,000,000.00) (the "Cash Consideration"), and (b) 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 $6,515,645 by the Closing Market Price (as hereinafter defined) (the "Equity Consideration"). The Company agrees that the Cash Consideration and the Equity Consideration (less the amounts distributable to Harniman under Section 1.5(b)) shall be distributed by it to the Stockholders in accordance with the percentages set forth on Schedule 1.5 hereto. A portion of the Equity Consideration in an amount equal to $1,515,645 shall be distributed by the Company to Matthew Berk ("Berk"), free of any escrow described in Sections 1.6 and 1.7 below, as provided in Schedule 1.5 and with the intent that Berk shall subject the same to vesting as provided in Section 6.8. The Stockholders acknowledge and agree that the consideration received by each Stockholder under this Agreement is of equal value and is fair and equitable, despite the fact that the proportional mix between the various types of consideration is not the same for each such

person. Such Cash Consideration and Equity 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 "Purchase Price." For purposes of this Agreement, the term "Closing Market Price" shall mean 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 Closing Date.

(b) Treatment of Company Options. Effective as of the Closing and consistent with the requirements of Prop. Reg. §1.409A-3(g)(5)(iv), the Company shall repurchase and cancel each outstanding, unexercised Company option granted to Harniman under the Company Option Plan (as hereinafter defined), whether vested or unvested (the "Harniman Options"). Harniman shall be entitled to receive from the Company, in exchange for the repurchase of such Harniman Options, a portion of the Cash Consideration in an amount equal to $65,594 in cash and a portion of the Equity Consideration in an amount as shall be obtained by dividing $55,494 by the Closing Market Price (collectively, the "Option Consideration"). No portion of the Option Consideration shall be used to fund the Escrow Deposit.

(c) In addition to the foregoing, immediately after the Closing, Parent agrees to issue to Harniman (together with Berk, the "Employee Equityholders") an amount of Parent Common Stock as shall be obtained by dividing $484,355 by the Closing Market Price. Such stock issued to Harniman shall be issued by Parent under the Executive Employment Agreement referred to in Section 6.8 and shall be subject to restrictions set forth in Section 6.8. The parties agree that such amount of stock is being issued in connection with services to be performed by Harniman for Buyer post-Closing and shall not be treated as Purchase Price. The shares of Parent Common Stock subjected to vesting as contemplated by this Section 1.5 and Section 6.8 are hereinafter referred to as the "Restricted Equity Consideration".

1.6 Distribution of Purchase Price. At the Closing the Cash Consideration shall be paid to an account maintained by Sullivan & Worcester LLP, for the benefit of the Company, less $600,000 which, while deemed paid to the Company and distributed to the Stockholders, shall be placed in escrow to satisfy the obligations pursuant to Article XI hereof (the "Cash Escrow). For purposes of administrative convenience only, the Equity Consideration (less the amounts distributable to Harniman under Section 1.5(b)) shall be distributed to the Stockholders on behalf of the Company in the proportion specified on Schedule 1.5 as soon as practicable after the Closing and in any event the stock certificates representing such Equity Consideration will be distributed within two (2) business days of the Closing, less that number of shares of Parent Common Stock issued as part of the Equity Consideration as shall be obtained by dividing $700,000 by the Closing Market Price which, while deemed paid to the Company and distributed to the Stockholders, shall be placed in escrow to satisfy the obligations pursuant to Article XI hereof (the "Stock Escrow).

1.7 Escrow. At Closing, Parent will deposit in escrow for the benefit of the Company and the Stockholders the Cash Escrow and as soon as practicable after the Closing and in any event within two (2) business days after the Closing Parent will deposit in escrow for the benefit of the Stockholders the Stock Escrow (the Stock Escrow, together with the Cash Escrow, the

"Escrow Deposit"). The Escrow Deposit shall be held by and registered in the name of U.S. Bank National Association, as nominee of the Seller, and escrow agent (the "Escrow Agent"), as security for the indemnification obligations under Article XI pursuant to the provisions of an Escrow Agreement (the "Escrow Agreement") in substantially the form of Exhibit A attached hereto. The Buyer and Seller intend that, for Federal and State income tax purposes, the Escrow Deposit shall be treated as the property of the Seller.

1.8 Allocation of Purchase Price. Parent shall prepare an allocation of the Purchase Price (and all other capitalized costs) among the Purchased Assets in accordance with the Internal Revenue Code of 1986, as amended (the "Code"), Section 1060 and the Treasury regulations promulgated thereunder (and any similar provision of state, local or foreign law, as appropriate) for Stockholder Representative's review and reasonable approval, not to be unreasonably witheld or delayed. Parent shall deliver such allocation to Seller and Stockholder's Representative within ninety (90) days after the Closing Date. Parent, Buyer, Seller, and the Company and their affiliates shall report, act, and file Tax Returns (including, but not limited to Internal Revenue Service Form 8594) in all respects and for all purposes consistent with such allocation prepared by Parent. Seller shall timely and properly prepare, execute, file and deliver all such documents, forms and other information as Buyer may reasonably request to prepare such allocation. Neither Parent nor Seller shall take any position or permit their affiliates to take any position (whether in Tax audits, Tax Returns or otherwise) which is inconsistent with such allocation unless required to do so by applicable law.

1.9 Closing. Unless this Agreement shall have been terminated and the transactions herein contemplated shall have been abandoned pursuant to Article X and subject to the satisfaction or waiver of the conditions set forth in Articles VIII and IX, the closing of the transactions described herein (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 VIII and IX, at the offices of Marchex, Inc., 413 Pine Street, Suite 500, Seattle, WA 98101, unless another date, time or place is agreed to in writing by the parties hereto. The date of such Closing is referred to herein as the "Closing Date" and the effective time of such Closing for accounting purposes shall be 12:01 a.m. PST on such date.

1.10 Execution and Delivery of Documents of Title by the Parties. At the Closing, the Company and the Buyer shall execute and deliver to Buyer the Bill of Sale, Assignment and Assumption Agreement, which is attached hereto as Exhibit B (the "Bill of Sale"). The Company shall also deliver and such deeds, conveyances, bills of sale, certificates of title, assignments, assurances and other instruments and documents as Buyer may reasonably request in order to effect the sale, conveyance, and transfer of the Purchased Assets from the Company to the Buyer. Such instruments and documents shall be sufficient to convey to Buyer good and merchantable title in all of the Purchased Assets, free and clear of all liens. The Company will, from time to time after the Closing Date, take such additional actions and execute and deliver such further documents as Buyer may reasonably request in order more effectively to sell, transfer and convey the Purchased Assets to Buyer and to place Buyer in position to operate and control all of the Purchased Assets. At the Closing, Buyer shall execute and deliver to the Company such other documents as the Company may reasonably request in order to evidence

Buyer's assumption of the Assumed Liabilities. Buyer will, from time to time after the Closing Date, take such additional action and deliver such further documents as the Company may reasonably request in order effectively to assume the Assumed Liabilities.

1.11 Withholding. Parent or Buyer shall be entitled to deduct and withhold from the Purchase Price and the Restricted Equity Consideration payable or otherwise deliverable pursuant to this Agreement and the transactions contemplated herein or the Equityholders shall remit to the Buyer, such amounts as Parent or Buyer may be required to pay, deduct or withhold therefrom under the Code or under any provision of federal, state, local or foreign Tax law, including without limitation withholding taxes due, if any, with respect to the issuance and vesting of the Restricted Equity Consideration and in connection with the exercise, cancellation, termination or other disposition of Company stock options (each, a "Company Stock Option"). 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.

1.12 Consents to Assignment. Notwithstanding anything to the contrary in this Agreement, this Agreement shall not constitute an agreement to assign or transfer any contract, lease, authorization, license or permit, or any claim, right or benefit arising thereunder or resulting therefrom, if an attempted assignment or transfer thereof, without the consent of a third party thereto (other than an Affiliate of the Seller) or of the issuing federal state, local or foreign, governmental or quasi-governmental entity or municipality or subdivision thereof or any or agency, authority, department, commission, board, bureau, agency, court, tribunal or instrumentality, or any applicable self-regulatory organization (individually, a "Governmental Entity" and collectively, the "Governmental Entities"), as the case may be, would constitute a breach thereof. If Deferred Consent is not obtained, or if an attempted assignment or transfer thereof would be ineffective or would affect the rights thereunder so that the Buyer would not receive all such rights, then, in each such case, (a) the contract, lease, authorization, license or permit to which Deferred Consent relates (a "Deferred Item") shall be withheld from sale pursuant to this Agreement without any reduction in the Purchase Price, (b) from and after the Closing, the Seller and the Buyer will cooperate, in all reasonable respects, to obtain such Deferred Consent as soon as practicable after the Closing, *provided* that the Seller shall not be required to make any payments or agree to any material undertakings in connection therewith, and (c) until such Deferred Consent is obtained, the Seller and the Buyer will cooperate, in all reasonable respects, to provide to the Buyer the benefits under the Deferred Item to which such Deferred Consent relates (with the Buyer entitled to all the benefits and responsible for all the Taxes thereunder). In particular, in the event that any such Deferred Consent is not obtained prior to the Closing, then the Buyer and the Seller shall enter into such arrangements (including subleasing or subcontracting if permitted) to provide to the parties the economic and operational equivalent of obtaining such Deferred Consent and assigning or transferring such contract, lease, authorization, license or permit, including enforcement for the benefit of the Buyer of all claims or rights arising thereunder, and the performance by the Buyer of the obligations thereunder on a prompt and punctual basis. "Deferred Consent" shall mean an agreement to assign or transfer any contract, lease, authorization, license or permit, or any claim, right or benefit arising thereunder or resulting therefrom, if an attempted assignment or transfer thereof, without the

consent of a third party thereto or of the issuing Governmental Entity, as the case may be, would constitute a breach thereof. Nothing in this Section 1.12 shall require the Buyer to waive any closing condition, including, without limitation, Section 8.6 below. In no event shall Deferred Consents be deemed to include any consent required under the contracts listed in Schedule 2.3.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE EQUITYHOLDERS

The Company and the Equityholders jointly and severally represent and warrant to the Parent and Buyer 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.

2.1 Corporate Organization.

The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. 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 2.1(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 for the State of Delaware 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 or results of operations of the Company, taken as a whole.

2.2 Authorization. The Company has full corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The Equityholders have the legal capacity to enter into this Agreement and to carry out the transactions contemplated hereby. The execution, delivery and performance of this Agreement by the Company and the Equityholders have been duly and validly authorized and approved by all necessary corporate actions. This Agreement constitutes the legal and binding obligation of the Company and the Equityholders, enforceable against each of them 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.

2.3 Consents and Approvals; No Violations. Except as set forth on Schedule 2.3, the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, including specifically the transfer of the Purchased Assets to Buyer by the Company, will not: (i) violate or conflict with the provisions of any applicable federal, state, local or foreign laws, (ii) violate or conflict with any provision of the Certificate of Incorporation or By-Laws of the Company, (iii) 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, (iv) 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 (v) 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.

2.4 Capitalization.

(a) The authorized capital stock of the Company consists of 3,200, shares of Common Stock, $0.01 par value per share (the "Stock") of which 2,661 shares of Stock are issued and outstanding. The beneficial and record ownership of all of the outstanding shares of Stock is set forth on Schedule 2.4(a) attached hereto. All outstanding shares of 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 the Company or any agreement or document to which the Company is a party or by which it is bound.

As of the date of this Agreement, 263 shares of Company Stock were reserved for issuance upon the exercise of options to purchase Company Stock granted pursuant to the Company's 2005 Stock Option and Incentive Plan (the "Company Option Plan") under which options are outstanding for an aggregate of 263 shares and under which no shares are available for grant. All shares of Company Stock subject to issuance as aforesaid, upon issuance on the terms and conditions specified in the instruments pursuant to which they are issuable, would be duly authorized, validly issued, fully paid and nonassessable.

Except as set forth above, as of the date of this Agreement no shares of 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 the 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 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).

The Company has never repurchased, redeemed or otherwise acquired or caused the repurchase, redemption or acquisition of any shares of 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 Stock or other securities of the Company. There is no claim or basis for such a claim to any portion of the Purchase Price except as provided in Section 1.5 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 there are no voting trusts, proxies or agreements or understandings with respect to any equity security of any class of securities of the Company.

All outstanding options to purchase Company Stock were issued pursuant to the Company Option Plan. Schedule 2.4 hereto sets forth a true and complete list of the holders of outstanding Company Stock Options and lists for each outstanding Company Stock Option, as of the date of this Agreement, (i) the number of shares of Company Stock subject to such outstanding Company Stock Option, (ii) the exercise price of such option, (iii) the number of shares as to which such option will have vested, (iv) the vesting schedule for such option and whether the exercisability of such option will be accelerated in any way by the transactions contemplated by this Agreement or for any other reason, and (v) indicates the extent of acceleration, if any.

(b) Since its date of formation, the Company has not owned, 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.

2.5 Financial Statements; Business Information. (a) Attached hereto as Schedule 2.5(a) are (i) the unaudited balance sheets of the Company as of December 31, 2004 and December 31, 2005 and the statements of operations for the fiscal periods then ended, and (ii) the unaudited balance sheet of the Company as of March 31, 2006 (the "Balance Sheet") and the statements of operations of the Company for the three (3) months then ended (hereinafter collectively referred to as the "Financial Statements"). The Financial Statements (i) have been prepared on a tax basis from the books and records of the Company, and (ii) have been prepared consistently during the periods covered thereby.

(b) Schedule 2.5(b) attached hereto sets forth certain statistics regarding the Company's Business including, but not limited to, information related to the Company's products, services and websites such as (i) number of domains registered as of the date hereof, (ii) number of unique users (defined by their IP address and user agent string visiting a particular domain in a calendar day) visiting the Company's websites resulting from domain type in traffic, search queries and other methods for the months of January, February, March and April of 2006, and (iii) number of accepted or valid click-throughs for the months of January, February, March and April of 2006 (the "Data") which are true and correct in all material respects as of the dates stated in the schedule. Without limiting the materiality of any other representations, warranties and covenants of the Company and the Equityholders contained herein, the Company and the Equityholders specifically acknowledge that the accuracy in all material respects of such Data is material to the Parent's decision to enter into the transactions contemplated by this Agreement and to pay the Purchase Price.

(c) To the best of its knowledge, the Company has not directly or indirectly installed, imbedded or derived any traffic from any Spyware or Malware Software sources. For the purposes hereof, "Malware Software" is any program or file that is harmful to a computer user, including without limitation, computer viruses, worms, and Trojan horses, and "Spyware" is programming that gathers information about a computer user without permission.

2.6 Absence of Undisclosed Liabilities. Except (i) as set forth or reserved against in the Balance Sheet and (ii) for obligations and liabilities incurred since March 31, 2006 in the ordinary course of business, which do not individually or in the aggregate exceed $10,000, the Company does not, except as set forth on Schedule 2.6, have any liabilities or obligations of any nature, whether accrued, absolute, contingent or otherwise. Schedule 2.6 sets forth a true and correct aged list of all accounts payable of the Company as of March 31, 2006. Except as set forth on Schedule 2.6, no part of the Assumed Liabilities or the Purchased Assets consists of or involves, directly or indirectly, any loan or other obligation outstanding from, or contract in effect with any stockholder or for which any stockholder is or may be liable under guaranty or otherwise, or any loan, obligation or contract with any of the stockholders, officers or directors of the Company or any affiliate of any of them.

2.7 Absence of Certain Changes or Events. Except as set forth on Schedule 2.7 hereto, since March 31, 2006, 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 2.7 or as

set forth or reserved against in the Balance Sheet, since March 31, 2006, 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 its method of applying any such principle or practice, (iv) suffered any material damage, destruction or loss, whether or not covered by insurance, affecting its 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.

2.8 Legal Proceedings, etc. Except as set forth on Schedule 2.8, there are no suits, actions, claims, proceedings (including, without limitation, arbitral or administrative proceedings) or investigations pending or, to the knowledge of the Company or the Equityholders, threatened against the Company or its properties, assets or Business or, to the knowledge of the Company or the Equityholders, pending or threatened against any of the officers, directors, partners, managers, employees, agents or consultants of the Company in connection with the Business of the Company. There are no such suits, actions, claims, proceedings or investigations pending against the Company or, to the knowledge of the Company or the Equityholders, 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 2.8 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 material compliance with the terms of such settlements, judgments, orders, injunctions, decrees and awards. Schedule 2.8 hereto sets forth all suits, actions, claims, proceedings or investigations regarding any equity security of the Company which the Company or the Equityholders has ever been involved in or received notice of.

2.9 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 2.9(a) hereof. The Company will establish, in the ordinary course of business and consistent with its past practices, any reserves (other than reserves for deferred Taxes established to reflect timing differences between book and Tax income) necessary 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. 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) There are no actions, claims or proceedings currently pending or, to the knowledge of the Company or the Equityholders, 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 that remains outstanding. 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 such 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, including 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 and the Company does not have any liability for Taxes of any person (other than the Company) and any liability in respect of any tax as a result of being a member of any affiliated, consolidated, combined unitary or similar group under Treasury Regulation 1.1502-6 (or any similar provision of state, local or foreign law) or as a transferee, successor or guarantor or by contract, indemnification or otherwise.

(e) The Company has withheld and paid all amounts from its respective employees, agents 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 and all Forms W-2 and 1099 required with respect thereto have been properly completed and timely filed.

(f) No amount will be required to be withheld under Section 1445 of the Code in connection with any of the transactions contemplated by this Agreement.

(g) 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.

(h) No claim has ever been made in writing to the Company 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 neither does business in nor derives income from within or allocable to any state, local, territorial or foreign taxing jurisdiction other than those for which all Tax Returns have been furnished to the Buyer.

(i) The Company does not engage in a non-United States trade of business and does not have a permanent establishment outside the United States.

(j) The Company has not waived any statute of limitations with respect to Taxes or agreed to any extension of time with respect to any Tax assessment or deficiency, or the collection of any Tax, which remains outstanding; and 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, state, local and foreign 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) No foreign subsidiary of the Company owned directly or indirectly is, or at any time has been, a passive foreign investment company within the meaning of Sections 1291 through 1297 of the Code, neither the Company nor any of its subsidiaries is a stockholder, directly or indirectly, in a passive foreign investment company, no foreign subsidiary of the Company is a foreign personal holding company within the meaning of Section 552 of the Code, and no foreign subsidiary of the Company that is not a United States person (x) is, or at any time has been, engaged in the conduct of a trade or business within the United States or treated as or considered to be so engaged or (y) has, or at any time has had, an investment in “United States property” within the meaning of Section 956(c) of the Code; neither the Company nor any of its subsidiaries is, or at any time has been, subject to (A) the dual consolidated loss provisions of the Section 1503(d) of the Code, (B) the overall foreign loss provisions of Section 904(f) of the Code or (iii) the re-characterization provisions of Section 952(c)(2) of the Code.

(m) The Company has not participated in or cooperated with an international boycott within the meaning of Section 999 of the Code. The Company has proper receipts (which will be delivered to Buyer at the Closing), within the meaning of Treasury Regulation Section 1.905-2 for any foreign Tax that has been or in the future may be claimed as a foreign tax credit for United States federal income tax purposes.

(n) Schedule 2.9(n) attached hereto sets forth each jurisdiction in which the Company files, or is required to file or has been required to file a Tax Return or is or has been liable for Taxes on a "nexus" basis.

(o) The Assumed Liabilities do not include any obligations to employees with respect to deferred compensation arrangements which might be subject to excise tax under Section 409A of the Code.

(p) At all times since its formation, the Company (and any predecessor of the Company) has been a validly electing S corporation within the meanings of Sections 1361 and 1362 of the Code for United States federal income tax purposes, as well as for any state or local income tax purposes, and the Company will be treated as an S corporation up to and including the day of the Closing Date.

(q) 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 (i) 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, or (ii) acquired the stock of any corporation which is a "qualified subchapter S subsidiary".

2.10 Title to Properties and Related Matters. (a) The Company has good and marketable title to, or a valid leasehold interest in, all of the Purchased Assets, 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 and (ii) liens for Taxes not yet due and payable) and the sale and purchase of the Purchased Assets to Buyer pursuant hereto shall vest in Buyer good and marketable title to, or a valid leasehold interest in, all of the Purchased Assets, free and clear of any claims, liens, pledges, security interests or encumbrances of any kind whatsoever subject to the above exceptions. The Purchased Assets are sufficient for the conduct of the Company's Business as presently conducted and with the exception of the Retained Assets, the Purchased Assets constitute all of the assets used by the Company and its affiliates in the Company's Business. All Purchased Assets conform to all applicable laws, statutes, ordinances, rules and regulations.

(b) The Company does not own any real property or any interest in real property.

(c) Schedule 2.10(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 December 31, 2005, in each case of $10,000 or more. Except as set forth on Schedule 2.10(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 2.10(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. 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. For the purposes hereof, Related Person shall mean any of the following (i) the Equityholders; (ii) the spouses and children of any of the Equityholders (collectively, "Near Relatives"); (iii) any trust for the benefit of any of the Equityholders or any of their respective Near Relatives; or (iv) any corporation, partnership, joint venture or other entity or enterprise owned or controlled by the Equityholders or by any of their respective Near Relatives.

(d) Schedule 2.10(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 2.10(d) hereto. Except as set forth on Schedule 2.10(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 Equityholders) 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 Equityholders) a default by any other party under such lease; (iii) to the knowledge of the Company or the Equityholders, 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 2.10(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.

2.11 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) Set forth on Schedule 2.11(a) 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 2.11(a), 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 2.11(a), 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 2.11(a), 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.

(b) Except as set forth on Schedule 2.11(b), 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.

(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 2.11(c) 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 2.11(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 2.11(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) Except as set forth on Schedule 2.11(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 2.11(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 2.11(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 Equityholders, no person has infringed 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 Equityholders, 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 Equityholders, 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 2.11(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 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 and the Equityholders, 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 Buyer as part of the Purchased Assets hereunder and neither the Company and the Equityholders, as the case may be, has retained any rights with respect thereto. Except as set forth on Schedule 2.11(i), neither the Company, the Equityholders, nor, to the knowledge of the Company and the Equityholders, 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 agreements 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 Equityholders 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.

(j) All information and content of the World Wide Web sites of the Company (other than information provided by users, customers and advertisers) is accurate and complete in all material respects.

(k) Schedule 2.11(k) lists all Open Source Materials that the Company has used in any way and describes the manner in which such Open Source Materials have been used by the Company in connection with the Business, including, without limitation, whether and how the Open Source Materials have been modified and/or distributed by the Company. Except as set forth in Schedule 2.11(k), the Company has not (i) incorporated any Open Source Materials into, or combined Open Source Materials with, any products of the Business, (ii) distributed Open Source Materials in connection with any products of the Business, or (iii) used Open Source Materials that (with respect to either clause (i), (ii) or (iii) above) (A) create, or purport to create, obligations for the Company with respect to software developed or distributed by the Company or (B) grant, or purport to grant, to any third party any rights or immunities under intellectual property rights. Without limiting the generality of the foregoing, the Company has not used any Open Source Materials that require, as a condition of use, modification and/or distribution of such Open Source Materials, that other software incorporated into, derived from or distributed with such Open Source Materials be (1) disclosed or distributed in source code form, (2) licensed for the purpose of making derivative works, or (3) redistributed at no charge. For purposes hereof, "Open Source Materials" shall mean all software or other material that is distributed as "free software", "open source software" or under a similar licensing or distribution model, including without limitation the GNU General Public License (GPL), GNU Lesser General Public License (LGPL), Mozilla Public License (MPL), BSD Licenses, the Artistic License, the

Netscape Public License, the Sun Community Source License (SCSL) the Sun Industry Standards License (SISL) and the Apache License.

(l) Neither the Company nor the Equityholders collect or receive personally identifiable information that identifies or locates a particular person in connection with the conduct of the Company's Business.

2.12 Contracts. (a) Except as set forth on Schedules 2.12(a)-(d) 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;

(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 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 month;

(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 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 2.12(a) hereto. Except as set forth on Schedule 2.12(b) hereto, (i) each contract listed in Schedule 2.12(a) hereto is in full force and effect; (ii) neither the Company nor (to the knowledge of the Company and the Equityholders) any other party is in default under any contract listed in Schedule 2.12 (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 by the Company or (to the knowledge of the Company and the Equityholders) a default by any other party under such contract; (iii) to the knowledge of the Company and the Equityholders, there are no disputes or disagreements between the Company and any other party with respect to any contract listed in Schedule 2.12 (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 2.12(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 Schedules 2.12(a)-(d) hereto, is and always has been in compliance with 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.

2.13 Employees; Employee Benefits.

(a) Schedule 2.13(a) hereto sets forth the names of all current employees of and independent contractors providing services to the Company (the "Employees") together with the position, annual or other rate of compensation, accrued vacation and sick time, and any commissions, bonuses or other types of compensation, including any deal bonuses due to each such individual in connection with the closing of the transactions contemplated herein. Any person who has provided or is providing services to the Company and who has not or will not receive an IRS W-2 form has been classified as an independent contractor in full compliance with federal and state wage and hour laws and the Company has fully and accurately reported such independent contractors compensation on IRS forms 1099 when required to do so.

(b) Neither the Company nor 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") maintains, contributes to, or has any liability or contingent liability for any 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, or any other employee benefit plan, program or arrangement, including, without limitation, an "employee benefit plan" within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

2.14 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 Equityholders, is there any inquiry, investigation or proceeding relating thereto.

2.15 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 by which it or any of its properties or assets is bound, that will prevent the use by the Buyer, after the Closing Date, 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 Equityholders, 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.

2.16 Major Partners. Schedule 2.16 hereto sets forth a complete and correct list of the ten (10) largest partners of the Company in terms of revenue recognized in respect of such partners during the three (3) months ended March 31, 2006 and during the twelve (12) months ended December 31, 2005, showing the amount of revenue recognized for each such partner, as the case may be, during such period. To the knowledge of the Company and the Stockholders,

except as set forth on Schedule 2.16 hereto, the Company has not received any notice or other communication (written or oral) from any of the partners listed in Schedule 2.16 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 partner and the Company.

2.17 Insurance. Schedule 2.17 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 is customary in the industry for companies of established reputation engaged in the same or similar businesses and owning or operating similar properties. Except as set forth on Schedule 2.17 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.

2.18 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 Equityholders. 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 5.3) with parties other than Parent. No valid claim exists against the Company or, based on any action by the Company, against the Parent or Buyer 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.

2.19 Third Party Audits and Investigations. There are no ongoing audits or investigations of the Company with respect to the Business by any Governmental Entity or other third party, including, without limitation, any party to a contract with the Company.

2.20 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 Equityholders 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 Equityholders 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 III

REPRESENTATIONS AND WARRANTIES OF THE EQUITYHOLDERS

3.1 Authorization; etc. Each of the Equityholders represents and warrants to the Parent and Buyer as follows:

(i) Each of the Stockholders shall, simultaneously with his, her or its execution and delivery of this Agreement, execute and deliver to Parent a written consent or resolution in which such Stockholder voted all of the Stock owned by such Stockholder in favor of the transactions contemplated herein and the adoption of this Agreement;

(ii) Each of the Equityholders 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 each such Equityholder 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

(iii) The execution and delivery of this Agreement by each such Equityholder and the consummation of the transactions contemplated hereby will not (A) 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 such Equityholder is a party, 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 such Equityholder pursuant to the terms of any such instrument or obligation, which breach, violation or event of default would have a material adverse effect on such Equityholder’s ability to perform such Equityholder’s obligations hereunder, or (B) 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 such Equityholder.

3.2 Parent Common Stock.

Each of the Equityholders represents and warrants to the Parent and Buyer as follows:

(i) Each of the Equityholders understands that the shares of Parent Common Stock to be issued to such Equityholder as part of the Purchase Price 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 Equityholders in this Agreement. Such Equityholder understands that the Parent is relying, in part, upon such Equityholder's representation and warranties contained in this Section 3.2 for the purpose of determining whether this transaction meets the requirements for such exemptions.

(ii) Each of the Equityholders has such knowledge, skill and experience in business, financial and investment matters so that such Equityholder 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 such Equityholder has deemed it appropriate to do so, such Equityholder 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) Each of the Equityholders, other than the Employee Equityholders, is an "accredited investor" within the meaning of Regulation D under the Securities Act.

(iv) Each of the Equityholders has made, either alone or together with such Equityholder's advisors, such independent investigation of the Parent, its management and related matters as such Equityholder 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 such Equityholder and such advisors have received all information and data that such Equityholder 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.

(v) Each of the Equityholders has reviewed such Equityholder's financial condition and commitments, alone and together with such Equityholder's advisors, and, based on such review, such Equityholder is satisfied that (A) the Equityholder has adequate means of providing for the Equityholder'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 Equityholder's entire investment in the Parent Common Stock, (B) the Equityholder 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 Equityholder is capable of bearing the economic risk of an investment in the Parent Common Stock for the indefinite future. Such Equityholder shall furnish any additional information about the Equityholder reasonably requested by the Parent to assure the compliance of this transaction with applicable federal and state securities laws.

(vi) Notwithstanding Article XII, each of the Equityholders understands that the shares of the Parent Common Stock to be received by the Equityholders 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 Equityholders 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. Each of the Equityholders further understands that applicable state securities laws may impose additional constraints upon the sale of securities. As a consequence, each of the Equityholders understands that such Equityholders may have to bear the economic risk of an investment in the Parent Common Stock to be received by such Equityholders pursuant to the transactions contemplated hereby for an indefinite period of time.

(vii) Except as provided in Article XII, each of the Equityholders 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.

(viii) 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."

3.3 Taxes. Except as disclosed on Schedule 3.3, each Equityholder 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 his share of income, gain, loss, deduction and other tax items of the Company for periods ending on or before December 31, 2005 and will do so with respect to his share of income, gain, loss, deduction and other Tax items of the Company for calendar year 2006 and for the period ending on the Closing Date.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE PARENT AND BUYER

The Parent and Buyer represents and warrants to the Company and the Equityholders 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.

4.1 Corporate Organization. Parent and Buyer are corporations duly organized, validly existing and in good standing under the laws of the State of Delaware. Parent and Buyer have all requisite corporate power and authority to own, operate and lease the properties and assets Parent and/or Buyer now owns, operates and leases and to carry on Parent's and/or Buyer's business as presently conducted. The Parent and Buyer are 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 and/or Buyer 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). The Parent and/or Buyer have previously made available to the Company complete and correct copies of 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 and Buyer as of a recent date). Neither the Certificate of Incorporation nor the By-Laws of the Parent and/or Buyer 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 Buyer), taken as a whole.

4.2 Authorization. The Parent and Buyer have full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement by Parent and Buyer have been duly and validly authorized and approved by all necessary corporate action on the part of Parent and Buyer. This Agreement constitutes the legal and binding obligation of the Parent and Buyer, enforceable against them 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).

4.3 Consents and Approvals; No Violations. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not: (i) violate or conflict with the provisions of any applicable federal, state, local or foreign laws; (ii) violate or conflict with any provisions of the Certificate of Incorporation or By-Laws of the Parent and/or Buyer; (iii) 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 and/or Buyer 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 and/or Buyer 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; (iv) 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 and/or Buyer 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 (v) require, on the part of the Parent and/or Buyer, 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.

4.4 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 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 4.4 shall also be deemed to be made with respect to all filings made with the SEC on or before the Closing Date.

4.5 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 and/or Buyer.

4.6 Compliance with Applicable Law. Parent is 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.

4.7 Validity of Shares. Assuming the accuracy of the representations and warranties contained in Article III, the shares of Parent Common Stock to be issued in connection with this Agreement 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, except for the Company's repurchase rights pursuant to Section 6.9 below.

4.8 S-3 Eligibility; Listing. Parent is eligible to use Form S-3 for the registration for resale of the shares of Parent Common Stock to be received by the Equityholders in connection with the Closing. All of the shares of Parent Common Stock to be received by the Equityholders are approved for listing on the Nasdaq National Market.

4.9 Disclosure. Parent has not failed to disclose to the 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 Buyer 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 Buyer 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 V

CONDUCT OF BUSINESS PRIOR TO THE CLOSING DATE

5.1 Conduct of Business of the Company. During the period commencing on the date hereof and continuing until the Closing Date, the Company and the Equityholders 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;

(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 Closing Date;

(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, beneficiaries or any other person 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 Equityholders) 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 (other than domain names in the ordinary course) 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 change the method of accounting of the Company, make any Tax elections, enter any settlement or compromise of any Tax claim or liability with any taxing authority, or amend any Tax Return that would adversely affect Parent or its subsidiaries without the consent of Parent;

(p) will not make any payments to officers, directors, partners or managers, other than in the ordinary course;

(q) will not enter into any agreements with contractors or consultants (or amend or authorize additional work orders with respect to any such existing agreements) except as contemplated by this Agreement;

(r) 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; and

(s) will not sell any domain names (or enter into any agreement to do the foregoing) without the Parent's consent which shall not be unreasonably withheld or delayed.

5.2 Retained Liabilities. From and after the date hereof through the Closing Date and following the Closing, unless otherwise agreed to in writing by the parties hereto, the Company agrees to pay, perform and fully discharge all of the Retained Liabilities as they become due.

5.3 Other Negotiations. Neither the Company nor the Equityholders will (nor will they permit any of their respective officers, directors, managers, consultants, 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 X, 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 VI

ADDITIONAL AGREEMENTS

6.1 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 Buyer unless and until the transactions contemplated herein are consummated pursuant to the NDA Agreement (as hereinafter defined).

6.2 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. Without limiting the foregoing, prior to the Closing, the Seller shall cause all Company Intellectual Property contained on notebook, desktop, server or any other computer hard drives used by Employees, independent contractors, agents and subcontractors of the Company to be transferred to a server designated by the Parent that is included in the Purchased Assets in order to make such Company Intellectual Property fully accessible and usable by the Parent and/or Buyer after the Closing Date.

6.3 Material Events. At all times prior to the Closing Date, 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 VIII or Article IX hereof.

6.4 Fees and Expenses. The Parent, Buyer 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.

6.5 Supplements to Disclosure Schedules. From time to time prior to the Closing Date, 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.

6.6 Tax Matters.

(a) All Taxes, whether levied on the Company, any of the Company's subsidiaries, the Equityholders, the Parent or the Buyer or any of their respective affiliates, successors or assigns, resulting from the transactions contemplated herein or any other activities involving the Company prior to the Closing or otherwise on account of this Agreement, shall be paid by the Company or the Equityholders when due, and the Company or the Equityholders shall, at his, her or its own expense, file all necessary Tax Returns with respect to all such Taxes. Any Taxes imposed upon the sale or transfer of the Purchased Assets shall be paid by the Company or the Equityholders at Closing. Parent or Buyer shall be solely responsible for all Taxes arising from the ownership and use of the Purchased Assets by the Parent or Buyer beginning after the Closing Date (the "Post-Closing Period").

(b) Neither the Company nor the Equityholders 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. The Company and the Equityholders 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.

6.7 Post-Closing Adjustment. To the extent payment is received following the Closing by the Company under a Purchased Contract in respect of any Post-Closing Period, such payment or portion thereof which relates to the Post-Closing Period shall be promptly paid by the Company to the Buyer. To the extent payment is received following the Closing by the Buyer under a Purchased Contract in respect of any pre-closing period, such payment or portion thereof which relates to the pre-closing period shall be promptly paid by the Buyer to the Company. To the extent any payment is made following the Closing by the Buyer under a Purchased Contract in respect of any pre-closing period, such payment or portion thereof which relates to the pre-closing period shall be promptly reimbursed by the Company to the Buyer.

6.8 Restricted Stock Grants. With respect to the Restricted Equity Consideration, the Employee Equityholders agree that such shares shall vest as follows: 20.0% on the six (6) month anniversary of the Closing Date and thereafter at a rate of an additional 20.0% on the last day of each successive six (6) month period over the next twenty-four months. One hundred percent (100%) of the shares of Restricted Equity Consideration not already vested shall become

immediately vested in the event of an Acceleration Event. While the shares of Restricted Equity Consideration are subject to vesting pursuant to this Section 6.8, the Employee Equityholders will have all rights with respect thereto (including, without limitation, the right to vote the shares and the right to dividends paid on the shares, if any), except that the Employee Equityholders shall not have the right to possession and sale thereof. For the purposes hereof, Acceleration Event shall be defined as (a) a Change of Control (as defined herein), (b) the termination of employment without cause (as defined in the respective employment agreement) of Employee Equityholders, or (c) the resignation of Employee Equityholders for Good Reason (as defined in the respective employment agreement). For the purposes hereof, "Change of Control" shall mean (x) an event when any "person", as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), except for an existing stockholder of Parent as of the date hereof, is or becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Parent representing more than fifty percent (50%) of the voting power of the Parent's then outstanding securities, other than as a result of the purchase of equity securities directly from the Parent in connection with a financing transaction; (y) the consummation of a merger or consolidation of the Parent with or into another entity or any other corporate reorganization, if more than fifty percent (50%) of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Parent immediately prior to such merger, consolidation or other reorganization; or (z) the Parent sells, transfers or otherwise disposes of (in one transaction or a series of related transactions) all or substantially all of its respective assets or adopts any plan or proposal for its liquidation or dissolution. A Change of Control shall not occur if the person, surviving entity, or transferee is a wholly-owned (direct or indirect) subsidiary of Parent; provided, however, that an Acceleration Event shall occur upon a Change of Control of such wholly-owned subsidiary.

6.9 Repurchase Right. The Employee Equityholders agree to the following with respect to the Restricted Equity Consideration:

(a) In the event that the Employee Equityholder's employment relationship or consulting relationship, as the case may be, with Parent terminates, for any reason whatsoever, whether due to voluntary or involuntary action, death, disability or otherwise, the Parent shall have the right to repurchase at the Repurchase Price (as defined herein) all or any portion of the shares of Restricted Equity Consideration that are not already vested (after taking into account any acceleration of vesting as contemplated in Section 6.8), which right may be exercised at any time and from time to time within ninety (90) days after the date of such termination.

(b) Parent may exercise its right of repurchase of such shares of Restricted Equity Consideration held by such Employee Equityholder by providing written notice to such Employee Equityholder stating the number of shares to be repurchased, at a purchase price of $.01 per share (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, Parent shall deliver the Repurchase Price to

such Employee Equityholder, 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.

6.10 Change of Name; Use of Name. The Company will take all action necessary or appropriate to change its corporate name, effective immediately after the Closing, to a name that does not include the words "openlist.com" and will take such other actions within its power as may be necessary or appropriate to permit Buyer immediately after the Closing to use the Company's present corporate name and any other name substantially similar thereto. From and after the effective date of the change of the Company's corporate name, the Company and the Equityholders shall not use the name "openlist.com" or any other name which includes such words or which is substantially similar thereto for any purpose except to refer to the business conducted by the Company prior to the Closing.

6.11 Financial Statements. At the request of the Parent at any time following the Closing, the Company and the Equityholders shall use their best efforts and shall cooperate to facilitate an audit by the Company's independent auditor of the financial statements of the Company for the periods as requested by the Parent (the "Audit") to have been completed promptly to Parent's reasonable satisfaction at Parent's sole expense. The Company and the Equityholders shall promptly deliver a customary management representation letter in connection with the completion of such Audit. The Company and the Equityholders agree as requested by Parent from time to time, after the Closing Date to use reasonable best efforts to assist Parent in promptly obtaining the consent of the Company's independent auditor to include such auditor's report on the foregoing in any and all Parent SEC flings. In the event of a breach of this Section 6.11 by the Company and/or the Equityholders, Parent shall be entitled to disbursement to it of the entire amount of the Cash Escrow and the Stock Escrow.

6.12 Appointment of Stockholder Representative.

(a) The Stockholder Representative is hereby appointed as representative of the Stockholders for purposes of this Agreement and the Escrow Agreement. Stockholder approval of this Agreement in accordance with Section 8.9 hereof shall include confirmation of the authority of the Stockholder Representative. Parent and Buyer may rely upon the acts of the Stockholder Representative for all purposes permitted hereunder and under the Escrow Agreement.

(b) The Stockholder Representative shall have full power of substitution to act in the name, place and stead of the Stockholders in all matters in connection with this Agreement and the Escrow Agreement. The Stockholder Representative's power shall include the following powers, without limitation: the power to act for the Stockholders with regard to indemnification obligations hereunder; the power to compromise any claim on behalf of the Stockholders and to transact matters of litigation or arbitration in connection with this Agreement or the Escrow Agreement; the power to do or refrain from doing all such further acts and things on behalf of the Stockholders that the Stockholder Representative deems necessary or appropriate in his sole discretion, and to execute all such documents as the Stockholder Representative shall deem

necessary or appropriate, in connection therewith; and the power to receive service of process in connection with any claims under this Agreement.

(c) If the Stockholder Representative dies or otherwise becomes incapacitated and unable to serve as Stockholder Representative, his successor shall be appointed by a majority in interest of the Stockholders (such majority in interest to be determined in accordance with the pro rata amounts of the Purchase Price as set forth on Schedule 1.5 hereto).

(d) The Stockholder Representative shall act for the Stockholders in the manner the Stockholder Representative believes to be in the best interest of the Stockholders and consistent with his obligations under this Agreement, but shall have no duties or obligations except as specifically set forth in this Agreement. In acting as representative of the Stockholders, the Stockholder Representative may rely upon, and shall be protected in acting or refraining from acting upon, an opinion or advice of counsel, certificate of auditors or other certificate, statement, instrument, opinion, report, notice, request, consent, order arbitrator's award, appraisal, bond or other paper or documents reasonably believed by him to be genuine and to have been signed or presented by the proper party or parties. The Stockholder Representative shall not be personally liable to the Stockholders for any action taken, suffered or omitted by him in good faith and reasonably believed by him to be authorized or within the discretion of the rights or powers conferred upon him by this Section 6.12. The Stockholder Representative may consult with counsel and any advice of such counsel shall be full and complete authorization and protection in respect to any action taken or suffered or omitted by him in such capacity in good faith and in accordance with such opinion of counsel. The Stockholder Representative may perform his duties as Stockholder Representative either directly or by or through his agents or attorneys, and the Stockholder Representative shall not be responsible to the Stockholders for any misconduct or negligence on the part of any agent or attorney appointed with due care by him under this Agreement. No bond shall be required of the Stockholder Representative, and the Stockholders jointly and severally shall indemnify the Stockholder Representative with respect to any and all decisions made or actions taken in the capacity as Stockholder Representative, other than for the Stockholder Representative's willful misconduct or gross negligence.

6.13 Continued Listing. The Parent shall use reasonable best efforts to maintain the listing of all of the shares of Parent Common Stock on the Nasdaq National Market.

6.14 Use of Closing Market Price for Tax Reporting. Parent, Buyer, Seller and their affiliates covenant and agree that each shall use the Closing Market Price as the fair market value of the Parent Common Stock on the Closing Date on all Tax Returns and for all Tax reporting purposes.

6.15 Executive Employment Agreements. Immediately after the Closing, each of Berk and Harniman covenant to Parent and Buyer that he will execute Executive Employment Agreements, in the form attached hereto as Exhibit C (the "Executive Employment Agreements"), and in connection therewith will agree to the after-imposed restrictions on the equity consideration as set out in such agreements. Each of the Employee Equityholders will have the option to file protective elections under Section 83(b) of the Code as soon as practicable

after the Closing and in any event within thirty (30) days of the Closing and each agrees to furnish Parent with copies of such filed 83 (b) election, if any.

ARTICLE VII

COVENANTS OF THE COMPANY AND CERTAIN EQUITYHOLDERS

The Company and each of Berk and Harniman hereby agrees that for a period of two (2) years following the Closing Date, that he or it 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 or regularly traded in the over-the-counter market), which is directly or indirectly in competition with the Company's Business ("Competitive Activity"). The Company and each of the Berk and Harniman agrees that, for a period of two (2) years following the Closing Date hereof, he, she or it 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 Parent that were such with respect to the Parent at any time during the one (1) year immediately preceding the date hereof or that become such with respect to the Parent at any time during the one (1) year immediately following the date hereof. Such person's obligations under this Article VII shall survive termination of cessation of his, her or its employment or consultancy with the Company (if applicable) and the expiration thereof shall be tolled for any period during which such person is in breach thereof. Brad Gerstner agrees that, for a period of two (2) years following the Closing Date hereof, 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 either Berk or Harniman.

ARTICLE VIII

CONDITIONS TO THE OBLIGATIONS OF THE PARENT AND BUYER

The obligation of the Parent and Buyer 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 Buyer in their sole discretion):

8.1 Representations and Warranties True. The representations and warranties of the Company and the Equityholders 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 Buyer 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 Equityholders shall have executed and delivered to the Parent and Buyer a certificate to that effect with respect to all such representations and warranties made by the Equityholders.

8.2 Performance. The Company and the Equityholders 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 Buyer 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 Equityholders shall have executed and delivered to the Parent and Buyer a certificate to that effect with respect to all such obligations required to have been performed or complied with by the Equityholders on or before the Closing Date.

8.3 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.

8.4 Purchase Permitted by Applicable Laws; Legal Investment. Buyer's purchase of and payment for the Purchased Assets (i) shall not be prohibited by any applicable law or governmental order, rule, ruling, regulation, release or interpretation, (ii) shall not subject Parent or Buyer to any penalty, Tax, liability or, in the reasonable judgment of Parent or Buyer, any other onerous condition under or pursuant to any applicable law, statute, ordinance, regulation or rule, (iii) shall not constitute a fraudulent or voidable conveyance under any applicable law, and (iv) shall be permitted by all applicable laws, statutes, ordinances, regulations and rules of the jurisdictions to which Parent or Buyer is subject.

8.5 Proceedings Satisfactory. All proceedings taken in connection with the purchase and sale of the Purchased Assets, the Agreement and all documents and papers relating thereto, shall be in form and substance reasonably satisfactory to Parent and Buyer.

8.6 Consents. All approvals, consents, licenses, permits, orders, waivers and authorizations required to be obtained by the Company or the Equityholders in connection with the transactions contemplated by this Agreement and the sale of the Purchased Assets as set forth on Schedule 8.6 attached hereto shall have been obtained and shall be in full force and effect.

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

(i) Executive Employment Agreements in the form attached hereto as Exhibit C, executed by each of Berk and Harniman;

(ii) Confidentiality, Assignment of Inventions and Employment-at-Will Agreements for consultants and employees, in a form satisfactory to Parent, executed by each of the employees of the Company;

(iii) the Escrow Agreement, duly executed by the Escrow Agent;

(iv) each of the Equityholders shall have delivered to the Parent certifications that they are not foreign persons in accordance with the Treasury Regulations under Section 1445 of the Code;

(v) each of the Equityholders shall deliver to Parent a Form W-9 or Form W-8, as appropriate, on the Closing Date and prior to any payment of the Cash Consideration. Each Equityholder shall furnish Parent with an affidavit, stating, under penalty of perjury, the Equityholder's United States taxpayer identification number; and

(vi) each of Berk, Brad Gerstner, Harniman and Bejul Somaia shall have executed the Company's standard form of non-disclosure and assignment of inventions agreement covering the period of such individual's employment with the Company.

8.8 Material Adverse Effect. There shall not have occurred any event which is or reasonably could result in a Company Material Adverse Effect.

8.9 Approval. Each of the Stockholders shall have executed and delivered to Parent and Buyer a written consent or resolution in which the Stockholders unanimously voted in favor of the transactions contemplated herein and the adoption of this Agreement.

8.10 Supporting Documents. The Company shall have delivered to the Parent a certificate (i) 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 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 Stockholders of the Company, authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby; 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; and (iii) satisfactory evidence that tax good standings, waivers of state tax liens and state clearance certificates from each such jurisdiction in which the Company does Business has been applied for, and in lieu of each such

certificate, the Company will provide to the Parent written evidence as to the absence of any liens of any kind on the Purchased Assets for inspection taxes, which will be certified by the Company's Treasurer.

8.11 Release of Liens. The Company shall have obtained to the satisfaction of Parent and Buyer, the releases from creditors needed to terminate any security interests in the Purchased Assets granted by the Company.

8.12 Transfer of Purchased Assets. All of the Purchased Assets shall have been effectively sold, transferred, conveyed and assigned to Buyer in Nevada (including without limitation the electronic delivery of all software and related programs), free and clear of any and all liens, and all of the deeds, conveyances, bills of sale, certificates of title, assignments, assurances and other instruments and documents referenced in Section 1.10 shall have been executed, delivered and, if appropriate, filed or recorded. The Company shall have satisfied any and all indebtedness relating to Purchased Assets, other than the Assumed Liabilities.

ARTICLE IX

CONDITIONS TO THE OBLIGATIONS OF THE COMPANY AND THE EQUITYHOLDERS

The obligation of the Company and the Equityholders 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 Equityholders in their sole discretion):

9.1 Representations and Warranties True. The representations and warranties of each of the Parent and Buyer 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 Buyer shall have delivered to the Company and the Equityholders a certificate (with respect to Parent, signed on its behalf by its Chief Executive Officer and with respect to Buyer, signed on its behalf by its President) to that effect with respect to all such representations and warranties made by such entity.

9.2 Performance. The Parent and Buyer 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 the Parent and Buyer shall have delivered to the Company and the Equityholders a certificate (with respect to Parent, signed on its behalf by its Chief Executive Officer and with respect to Buyer, 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.

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 Parent and/or Buyer which would have a material adverse effect on the transactions contemplated hereby or is reasonably likely to result in a Parent Material Adverse Effect.

9.4 Proceedings Satisfactory. All proceedings taken in connection with the purchase and sale of the Purchased Assets, the Agreement and all documents and papers relating thereto, shall be in form and substance reasonably satisfactory to Company.

9.5 Consents. All approvals, consents, licenses, permits, orders, waivers and authorizations required to be obtained by Parent and/or Buyer in connection with the transactions contemplated by this Agreement and the sale of the Purchased Assets (including those identified on Schedule 4.3) shall have been obtained and shall be in full force and effect.

9.6 Additional Agreements. The Parent shall have executed and delivered counterparts of the Executive Employment Agreements referred to in Section 8.7(i) hereof and the Escrow Agreement referred to in Section 8.7(iii) hereof, together with counterparts signed by the Escrow Agent.

9.7 Purchase Price; Escrow Deposit.

(a) At the Closing, the Parent shall deliver and distribute the Purchase Price in accordance with Section 1.6.

(b) At Closing, Parent shall deliver to the Escrow Agent (i) the Cash Escrow at Closing by wire, and (ii) the Stock Escrow as soon as practicable after the Closing and in any event within two (2) business days after the Closing.

9.8 Supporting Documents.

(a) The Parent shall have delivered to the Company and the Equityholders (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 and Buyer, (ii) a certificate of the Secretary of the Parent and Buyer, dated the Closing Date, certifying on behalf of the Parent and Buyer (w) that attached thereto 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 and Buyer 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 Parent and Buyer authorizing the execution, delivery and performance

of this Agreement and the consummation of the transactions contemplated hereby; and (z) to the incumbency and specimen signature of each officer of the Parent executing on behalf of Parent and Buyer this Agreement and the other agreements related hereto.

ARTICLE X

TERMINATION

10.1 Termination. This Agreement may be terminated at any time prior to the Closing Date:

(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 Closing Date shall not have occurred on or before June 30, 2006, provided, however, that the right to terminate this Agreement pursuant to this Section 10.1(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 Closing Date 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.

10.2 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 Buyer) their respective officers or directors, except for Sections 6.4 and 13.6, and the last sentence of Section 6.1, 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.

ARTICLE XI

INDEMNIFICATION; SURVIVAL OF
REPRESENTATIONS AND WARRANTIES

11.1 Indemnity Obligations. (a) Subject to Sections 11.3 and 11.4 hereof, the Company and the Stockholders by adoption of this Agreement and approval of the transactions contemplated hereby, jointly and severally agree to indemnify and hold the Parent and Buyer (including their respective 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 Stockholders set forth in Article II 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 or any agreement entered into in connection herewith including, without limitation, the covenants set forth in Article VII of 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.

(b) Subject to Sections 11.3 and 11.4 hereof, the Company and the Stockholders by adoption of this Agreement and approval of the transactions contemplated hereby, the Company jointly and severally with respect to each of the Stockholders and the Stockholders severally and not jointly agree to indemnify and hold the Parent and Buyer (including their respective representatives and affiliates) 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 respective Stockholder set forth in Article III of this Agreement, or any Schedule or certificate delivered by the respective 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 respective Stockholder which are contained in this Agreement or any agreement entered into in connection herewith, including, without limitation, the covenants set forth in Article VII of this Agreement.

11.2 Notification of Claims.

(a) Subject to the provisions of Section 11.3 below, in the event of the occurrence of an event pursuant to which the Parent shall seek indemnity pursuant to Section 11.1, the Parent shall provide the Company and the Stockholders with prompt written notice (a "Claim Notice") of such event and shall otherwise promptly make available to the Company and the Stockholders, 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 Company and the Stockholders, 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 indemnified party.

(b) The Company and the Stockholders 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 Company and the Stockholders shall be borne by the Company and the Stockholders (including from the Escrow Deposit). 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 Company and the Stockholders, which consent shall not be unreasonably withheld, delayed or conditioned.

(c) Notwithstanding the other provisions of this Section 11.2, if a third party asserts (other than by means of a lawsuit) that Parent and/or Buyer is liable to such third party for a monetary or other obligation for which Parent and/or Buyer expects to seek indemnification pursuant to this Article XI, and Parent and/or Buyer reasonably determines that it has a valid business reason to fulfill such obligation, then (i) Parent and/or Buyer shall be entitled to satisfy such obligation, without prior notice to or consent from the Company or the Stockholders, (ii) Parent and/or Buyer may subsequently make a claim for indemnification in accordance with the provisions of this Article XI, and (iii) Parent and/or Buyer shall be reimbursed, in accordance with the provisions of this Article XI, for any such Losses for which it is entitled to indemnification pursuant to this Article XI (subject to the right of the Seller to dispute the Parent's and/or Buyer's entitlement to indemnification, or the amount for which it is entitled to indemnification, under the terms of this Article XI).

11.3 Duration. All representations and warranties set forth in this Agreement and any Schedules or certificates delivered pursuant hereto or thereto, and all covenants, agreements and undertakings of the parties 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 VII shall survive the Closing Date until the two (2) year anniversary of the Closing Date; (b) Indemnifiable Matters arising from breaches of the representations and warranties set forth in Sections 2.1, 2.2, 2.3, 2.4, 2.14 and Article III, shall each survive the Closing Date until the three (3) year anniversary of the Closing Date; (c) Indemnifiable Matters arising from breaches of the representation and warranties set forth in Section 2.11 shall survive the Closing Date until the four (4) year anniversary of the Closing Date (the "Section 2.11 Indemnifiable Matters"); and (d) Indemnifiable Matters arising from breaches of the

representations and warranties set forth in Section 2.9 and the covenant contained in Section 6.6 shall survive the Closing Date until the six (6) year anniversary of the Closing Date (all such obligations in (a), (b) and (d), collectively, the "Excluded Obligations"). 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 and shall survive the Closing Date indefinitely.

11.4 Escrow. The Escrow Deposit shall be held by the Escrow Agent 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. If the Closing occurs, Parent and Buyer agree that the right to indemnification pursuant to this Article XI shall constitute Parent's and Buyer's sole and exclusive remedy and recourse against the Company and Stockholders for Losses attributable to any Indemnifiable Matters. Except with respect to the Excluded Obligations, Section 2.11 Indemnifiable Matters or as otherwise provided in Section 6.11, the maximum aggregate liability of the Company and the Stockholders collectively shall be limited to the Escrow Deposit and of any Stockholder individually shall be limited to such Stockholder's Pro Rata Portion (as defined below) of the Escrow Deposit and the maximum aggregate liability of the Company and the Stockholders collectively for the Excluded Obligations (other than the Section 2.11 Indemnifiable Matters) shall be limited to the Purchase Price and of any Stockholder individually for the Excluded Obligations (other than the Section 2.11 Indemnifiable Matters) shall be limited to such Stockholder's Pro Rata Portion of the Losses up to the aggregate amount of the Purchase Price which such Stockholder is entitled. The maximum aggregate liability of the Stockholders for the Section 2.11 Indemnifiable Matters shall be limited as follows: (a) for Section 2.11 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 of each Stockholder shall be limited to such Stockholder's Pro Rata Portion of $6,500,000, (b) for Section 2.11 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 each Stockholder shall be limited to such Stockholder's Pro Rata Portion of $4,550,000, (c) for Section 2.11 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 each Stockholder shall be limited to such Stockholder's Pro Rata Portion of $2,600,000, and (iv) for Section 2.11 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 each Stockholder shall be limited to such Stockholder's Pro Rata Portion of $1,300,000. For the purposes of this Agreement, "Pro Rata Portion" of a Stockholder as to any Losses or as to the Escrow Deposit shall be equal to the percentage of the Purchase Price to which such Stockholder is entitled as set forth on Schedule 1.5. Any Losses payable pursuant to this Section 11.4 from the Escrow Deposit shall be paid from the Cash Escrow and the Stock Escrow as set forth in the Escrow Agreement. Notwithstanding anything to the contrary above, all Losses with respect to any Section 2.11 Indemnifiable Matters shall be

included for purposes of determining whether the maximum liability limits set forth above have been reached.

11.5 Registration Rights. The provisions of Section 12.5 hereof and not this Article XI shall govern any claim for indemnification pursuant to Article XII.

11.6 Limitations. Notwithstanding anything to the contrary contained herein, neither the Company nor the Stockholders shall have any liability for indemnification pursuant to this Article XI for Indemnifiable Matters arising from breaches of any representations and warranties set forth in Article II until the aggregate Losses are in excess of $50,000, at which point the Company and the Stockholders shall be liable for the full amount of all Losses above such amount. Notwithstanding anything to the contrary set forth in this Agreement, the amount of any Losses the indemnified persons shall be entitled to recover pursuant to the indemnification obligations set forth in Section 11.1 hereof shall be offset, on a dollar-for-dollar basis, against any Tax benefits realizable from such Losses. Harniman shall have no indemnification obligations under this Article XI.

11.7 No Contribution. The Company and the Stockholders hereby waive, acknowledge and agree that the Company and the Stockholders shall not have and shall not exercise or assert (or attempt to exercise or assert), any right of contribution or right of indemnity against the Parent or Buyer in connection with any indemnification payments which the Company or the Stockholders are required to make under this Article XI. Nothing in this Article XI shall limit a Stockholder's right of contribution or right of indemnity from another Stockholder.

11.8 Treatment of Indemnity Payments. All payments made pursuant to this Article XI pertaining to any indemnification obligations shall be treated as adjustments to the Purchase Price for Tax purposes and such agreed treatment shall govern for purposes of this Agreement, unless otherwise required by law.

ARTICLE XII

REGISTRATION RIGHTS

12.1 Registrable Shares. For purposes of this Agreement, "Registrable Shares" shall mean the shares of Parent Common Stock issued as the Equity Consideration and Restricted Equity Consideration.

12.2 Required Registration. Parent shall use best efforts to promptly prepare and file with the SEC a registration statement on Form S-3 under the Securities Act with respect to the resale of the Registrable Shares (the "Registration Statement") no later than thirty (30) days following the Closing and shall use reasonable best efforts to effect all such registrations, qualifications and compliances (including, without limitation, obtaining appropriate qualifications under applicable state securities or "blue sky" laws and compliance with any other applicable governmental requirements or regulations) as the Equityholders may reasonably request and that would permit or facilitate the sale of Registrable Shares (provided however that

Parent shall not be required in connection therewith to qualify to do business or to file a general consent to service of process in any such state or jurisdiction).

12.3 Effectiveness; Suspension Right.

(a) Parent will use its best efforts to cause the Registration Statement to become effective under the Securities Act (including without limitation the filing of any amendments or other documents necessary for such effectiveness) and to maintain the effectiveness of the Registration Statement and other applicable registrations, qualifications and compliances until one (1) year from the Closing Date (collectively, the "Registration Effective Period"), and from time to time will amend or supplement the Registration Statement and the prospectus contained therein as and to the extent necessary to comply with the Securities Act, the Exchange Act and any applicable state securities statute or regulation, subject to the following limitations and qualifications.

(b) Following such date as the Registration Statement is first declared effective, the Equityholders will be permitted to offer and sell the Registrable Shares registered therein during the Registration Effective Period in the manner described in the Registration Statement provided that the Registration Statement remains effective and has not been suspended and provided further that with respect to the Restricted Equity Consideration, only Registrable Shares that shall have "vested" pursuant to Section 6.8 hereof may be offered and sold.

(c) Notwithstanding any other provision of this Article XII, Parent shall have the right at any time to require that the Equityholders suspend further open market offers and sales of Registrable Shares pursuant to the Registration Statement whenever, and for so long as, in the reasonable judgment of the Board of Directors of Parent, upon written advice of counsel, there is in existence material undisclosed information or events with respect to Parent (the "Suspension Right"). In the event Parent exercises the Suspension Right, such suspension will continue for the period of time reasonably necessary for disclosure to occur at the earliest time that such disclosure would not have a material adverse effect on Parent, as determined in good faith by Parent after consultation with counsel. Parent will promptly give the Equityholders written notice of any such suspension and will use its best efforts to minimize the length of the suspension. Further, in the event of any such suspension, the number of days in which open market offers and sales shall be suspended shall be added to the Registration Effective Period.

12.4 Expenses. The costs and expenses to be borne by Parent for purposes of this Article XII shall include, without limitation, printing expenses (including a reasonable number of prospectuses for circulation by the Equityholders), legal fees and disbursements of counsel for Parent, "blue sky" expenses, accounting fees and filing fees, but shall not include underwriting commissions or similar charges, legal fees (if any) and disbursements of counsel for the Equityholders.

12.5 Indemnification.

(a) To the extent permitted by law, Parent will indemnify and hold harmless the Equityholders, any underwriter (as defined in the Securities Act) for the Equityholders, its officers, directors, Equityholders or partners and each person, if any, who controls the Equityholders or underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (A) any untrue statement or alleged untrue statement of a material fact contained or incorporated by reference in the Registration Statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (B) the omission or alleged omission to state or incorporate by reference therein a material fact required to be stated or incorporated by reference therein, or necessary to make the statements included or incorporated by reference therein not misleading, or (C) any violation or alleged violation by Parent of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law; and Parent will pay to such Equityholders, underwriter or controlling person, any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this Section 12.5(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the consent of Parent (which consent may not be unreasonably withheld); nor shall Parent be liable in any such case for any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon (i) a Violation which occurs in reliance upon and in conformity with written information furnished by such Equityholders expressly for use in the Registration Statement, or (ii) a Violation that would not have occurred if the Equityholders had delivered to the purchaser the version of the Prospectus most recently provided by Parent to the Equityholders as of a date prior to such sale.

(b) To the extent permitted by law, each Equityholder will indemnify and hold harmless Parent, each of its directors, each of its officers who has signed the Registration Statement, each person, if any, who controls Parent within the meaning of the Securities Act, any underwriter, and any controlling person of any such underwriter, against any losses, claims, damages, or liabilities (joint or several) to which any of the foregoing persons may become subject, under the Securities Act, the Exchange Act or other federal or state law, insofar as, and only to the extent that, such losses, claims, damages, or liabilities (or actions in respect thereto) arise out of or are based upon any Violation (which includes without limitation the failure of such Equityholder to comply with the prospectus delivery requirements under the Securities Act, and the failure of such Equityholder to deliver the most current prospectus provided by Parent prior to the date of such sale), in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Equityholder expressly for use in the Registration Statement or such Violation is caused by such Equityholder's failure to deliver to the purchaser of such Equityholder's Registrable Shares a prospectus (or amendment or supplement thereto) that had been made available to the Equityholders by Parent prior to the date of the sale; and such Equityholder will pay any legal or other expenses reasonably incurred by any person intended to be indemnified pursuant to this

Section 12.5(b) in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this Section 12.5(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of such Equityholder, which consent shall not be unreasonably withheld. The aggregate indemnification and contribution liability of such Equityholder under this Section 12.5(b) shall not exceed the net proceeds received by such Equityholder in connection with sale of shares pursuant to the Registration Statement.

(c) Each person entitled to indemnification under this Section 12.5 (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought and shall permit the Indemnifying Party to assume the defense of any such claim and any litigation resulting therefrom, provided that counsel for the Indemnifying Party who conducts the defense of such claim or any litigation resulting therefrom shall be approved by the Indemnified Party (whose approval shall not unreasonably be withheld), and the Indemnified Party may participate in such defense at such party's expense, and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Section 12.5 unless the Indemnifying Party is materially prejudiced thereby. No Indemnifying Party, in the defense of any such claim or litigation, shall (except with the consent of each Indemnified Party) consent to entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation. Each Indemnified Party shall furnish such information regarding itself or the claim in question as an Indemnifying Party may reasonably request in writing and as shall be reasonably required in connection with the defense of such claim and litigation resulting therefrom.

(d) To the extent that the indemnification provided for in this Section 12.5 is held by a court of competent jurisdiction to be unavailable to an Indemnified Party with respect to any loss, liability, claim, damage or expense referred to herein, then the Indemnifying Party, in lieu of indemnifying such Indemnified Party hereunder, shall contribute to the amount paid or payable by such Indemnified Party as a result of such loss, liability, claim, damage or expense in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one had and of the Indemnified Party on the other in connection with the statements or omissions which resulted in such loss, liability, claim, damage or expense, as well as any other relevant equitable considerations. The relative fault of the Indemnifying Party and of the Indemnified Party shall be determined by reference to, among other things, whether the untrue of alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Indemnifying Party or by the Indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

12.6 Procedures for Sale of Shares Under Registration Statement.

(a) Notice and Approval. If a Equityholder shall propose to sell (which may include an intent to sell an aggregate number of shares over a thirty (30) day period) Registrable Shares pursuant to the Registration Statement, he, she or it shall notify Parent via any reasonable written means (including via e-mail) of its intent to do so (including the proposed manner of all sales) at least one (1) full trading day prior to such sale, and the provision of such notice to Parent shall conclusively be deemed to reestablish and reconfirm an agreement by such Equityholder to comply with the registration provisions set forth in this Agreement. Unless otherwise specified in such notice, such notice shall be deemed to constitute a representation that any information previously supplied by such Equityholder expressly for inclusion in the Registration Statement (as the same may have been superseded by subsequent such information) is accurate as of the date of such notice. At any time within such one (1) trading-day period, Parent may refuse to permit such Equityholder to resell any Registrable Shares pursuant to the Registration Statement; provided, however, that in order to exercise this right, Parent must deliver a certificate in writing to such Equityholder prior to the expiration of the one (1) trading day waiting period to the effect that a delay in such sale is necessary because a sale pursuant to the Registration Statement in its then-current form without the addition of material, non-public information about Parent, could constitute a violation of the federal securities laws. If Parent does not refuse to permit such Equityholder to resell any Registrable Shares as provided above, then such Equityholder shall have the right to sell without further notice to Parent any or all of the shares identified in his notice to Parent within the time period identified in such notice (provided that such time period identified may not exceed 30 days from the date of the notice).

(b) Delivery of Prospectus. For any offer or sale of any of the Registrable Shares by a Equityholder in a transaction that is not exempt under the Securities Act, such Equityholder, in addition to complying with any other federal securities laws, shall deliver a copy of the final prospectus (or amendment of or supplement to such prospectus) of Parent covering the Registrable Shares in the form furnished to the Equityholders by Parent to the purchaser of any of the Registrable Shares on or before the settlement date for the purchase of such Registrable Shares.

(c) Copies of Prospectuses. Subject to the provisions of this Section 12.6, when a Equityholder is entitled to sell and gives notice of its intent to sell Registrable Shares pursuant to the Registration Statement, Parent shall, within two (2) trading days following the request, furnish to such Equityholder a reasonable number of copies of a supplement to or in amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such Registrable Shares, such prospectus shall not as of the date of delivery to such Equityholder include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statement therein not misleading or incomplete in the light of the circumstances then existing.

ARTICLE XIII

MISCELLANEOUS PROVISIONS

13.1 Amendment. This Agreement may be amended by a written instrument signed by Parent and a majority in interest of the Stockholders (such majority in interest to be determined in accordance with the pro rata amounts of the Purchase Price as set forth on Schedule 1.5 hereto), except that any amendment that disproportionately affects one Stockholder shall require the consent of such Stockholder.

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 Equityholders to:

Open List, Inc.
20 Marshall Street
Suite 305
Norwalk CT 06854

with copies to:

Sullivan & Worcester LLP
One Post Office Square
Boston, MA 02109
Attention: Miguel J. Vega, Esq.

(b) If to the Stockholder Representative to:

Brad Gerstner
One International Place, #2401
Boston, MA 02110

with copies to:

Sullivan & Worcester LLP
One Post Office Square
Boston, MA 02109
Attention: Miguel J. Vega, Esq.

(c) if to the Parent or Buyer, to:

Marchex, Inc.
413 Pine Street, Suite 500
Seattle, WA 98101
Attention: Ethan A. Caldwell, General Counsel

with copies to:

DLA Piper Rudnick Gray Cary US LLP
33 Arch Street, 26th Floor
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 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 and permitted assigns and any other parties indemnified under Article XI.

13.6 Public Announcements. Promptly after the date of execution hereof and the Closing Date, the Parent shall issue a press release in such form as reasonably acceptable to the Company and none of the parties hereto shall, except as agreed by the Parent and the Company, 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 and the Company dated March 21, 2006, as amended (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 (subject to the disclosure requirements of any applicable laws and/or governmental regulations).

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 as to matters within the scope thereof and, as to all other matters, shall be governed by and construed with the laws of the State of Washington, 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 Seattle, Washington 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 ASSET PURCHASE AGREEMENT

IN WITNESS WHEREOF, the parties 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

BUYER:

MDNH, INC.

By: /s/ Jay Bean
Name: Jay Bean
Title: President

SELLER:

OPEN LIST, INC.

By: /s/ Brian Harniman
Name: Brian Harniman
Title: Chief Executive Officer

EQUITYHOLDERS:

/s/ Matthew Berk
Matthew Berk

/s/ Brian Harniman
Brian Harniman

/s/ Brad Gerstner
Brad Gerstner

/s/ Bejul Somaia
Bejul Somaia

/s/ Brad Berk
Brad Berk

/s/ William Gerstner
William Gerstner

STOCKHOLDER REPRESENTATIVE:

/s/ Brad Gerstner
Name: Brad Gerstner

MARCHEX, INC.
ANNUAL INCENTIVE PLAN

Adopted October 2, 2006

Marchex, Inc., a Delaware corporation (the "Company"), established the Marchex, Inc. Annual Incentive Plan (the "Incentive Plan"), effective as of January 1, 2007. The purpose of the Incentive Plan is to motivate and reward performance resulting in the achievement of corporate objectives, to increase the competitiveness of pay without increasing fixed costs and to align the compensation of the management team to key financial drivers.

ARTICLE I.
DEFINITIONS

Section 1.1—Base Compensation. "Base Compensation," with respect to a fiscal year, shall mean the Participant's rate of annual base salary as in effect as of the last day of such fiscal year and shall exclude moving expenses, bonus pay and other payments which are not considered part of annual base salary.

Section 1.2—Board. "Board" shall mean the Board of Directors of the Company.

Section 1.3—Code. "Code" shall mean the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code herein shall be deemed to include a reference to the regulations promulgated under such section.

Section 1.4—Committee. "Committee" shall mean the Compensation Committee of the Board.

Section 1.5—Disability. "Disability" shall mean a permanent and total disability, within the meaning of Section 22(e)(3) of the Code.

Section 1.6—Participant. "Participant" shall mean, with respect to any fiscal year during the term of the Incentive Plan, a key employee of the Company selected by the Committee to participate in the Incentive Plan in accordance with Section 2.3 hereof.

ARTICLE II.
BONUS AWARDS

Section 2.1—Bonus Pool. Each fiscal year the Committee shall determine the maximum aggregate amount of the bonus pool to be awarded hereunder for such fiscal year.

Section 2.2—Performance Targets. A Participant shall be eligible to earn a bonus award under the Incentive Plan based on the achievement of performance targets by the Company, as determined by the Committee for each fiscal year of the Company. The performance targets for a fiscal year shall be determined on or before March 31st of such year and shall be based on the following objective business criteria and measured against such performance targets, as the Committee determines: (a) pre-tax income; (b) adjusted operating income before amortization; (c) operating income before amortization; (d)

operating income; (e) net earnings; (f) net income; (g) cash flow or funds from operations; (h) adjusted earnings per share; (i) earnings per share; (j) appreciation in the fair market value of the Company's stock; (k) cost reductions or savings; (l) implementation of critical processes or projects; or (m) adjusted EBITDA or earnings before any of the following items: interest, taxes, depreciation or amortization.

Section 2.3—Bonus Awards. Each individual who (a) is a key employee and (b) who is selected by the Committee to participate in the Incentive Plan with respect to such fiscal year, shall be eligible for a bonus award with respect to such fiscal year under this Incentive Plan. Each bonus award shall be in the sole discretion of the Committee based on its assessment of (i) the Company's achievement of the performance targets established by the Committee for the applicable fiscal year, and (ii) the Participant's performance during such fiscal year.

ARTICLE III.
PAYMENT OF BONUS AWARD

Section 3.1—Form of Payment. Each Participant's bonus award shall be paid in cash.

Section 3.2—Timing of Payment. Unless a Participant has properly elected to defer all or part of a bonus award under a deferred compensation plan sponsored by the Company, each bonus award made by the Committee shall be paid within seventy (70) days after the end of the fiscal year to which such bonus award relates.

ARTICLE IV.
TERMINATIONS

A Participant who, whether voluntarily or involuntarily, is terminated, demoted, transferred or otherwise ceases to be a key employee at any time during a fiscal year shall not be eligible to receive a partial fiscal year bonus award; provided, however, that if a Participant has executed an individually negotiated employment contract or agreement with the Company providing otherwise, such Participant's entitlement to a bonus award for such fiscal year shall be governed by the terms of the individually negotiated employment contract or agreement.

Notwithstanding the terms of the previous paragraph, in the event of a Participant's death or disability, or in the event of a change in ownership or control, the Committee may, in its sole discretion, provide partial fiscal year bonus awards to affected Participants.

ARTICLE V.
ADMINISTRATION

It shall be the duty of the Committee to conduct the general administration of the Incentive Plan in accordance with its provisions. The Committee shall have the power to interpret the Incentive Plan, and to adopt such rules for the administration, interpretation and application of the Incentive Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee or the Board in good faith shall be final and binding upon all parties.

ARTICLE VI.
OTHER PROVISIONS

Section 6.1—Amendment, Suspension or Termination of the Incentive Plan. This Incentive Plan does not constitute a promise to pay and may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Committee or the Board.

Section 6.2—Miscellaneous.

(a) The Company shall deduct all federal, state and local taxes required by law or Company policy from any bonus paid to a Participant hereunder.

(b) In no event shall the Company be obligated to pay to any Participant a bonus award for a fiscal year by reason of the Company's payment of a bonus to such Participant in any other fiscal year.

(c) The rights of Participants under the Incentive Plan shall be unfunded and unsecured. Amounts payable under the Incentive Plan are not and will not be transferred into a trust or otherwise set aside. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any bonus under the Incentive Plan.

(d) Nothing contained herein shall be construed as a contract of employment or deemed to give any Participant the right to be retained in the employ of the Company, or to interfere with the rights of the Company to discharge any individual at any time, with or without cause, for any reason or no reason, and with or without notice except as may be otherwise agreed in writing.

(e) No rights of any Participant to payments of any amounts under the Incentive Plan shall be sold, exchanged, transferred, assigned, pledged, hypothecated or otherwise disposed of other than by will or by laws of descent and distribution, and any such purported sale, exchange, transfer, assignment, pledge, hypothecation or disposition shall be void.

(f) Any provision of the Incentive Plan that is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of the Incentive Plan.

(g) The Incentive Plan and the rights and obligations of the parties to the Incentive Plan shall be governed by, and construed and interpreted in accordance with, the law of the State of Washington (without regard to principles of conflicts of law).

* * * * *

EXHIBIT 10.10

FORM OF RETENTION AGREEMENT

This Retention Agreement (the "Agreement") is entered into effective this 2nd day of October 2006, 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) 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 salary at the greater of (i) Executive's annualized base salary (including Executive's monthly car allowance, if any) in effect on the date of the Change of Control, or (ii) Executive's annualized base salary in effect on Executive's Employment Termination.

(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.

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.

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 US LLP
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.

[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:

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is made and entered into as of March 1, 2011, by and among MARCHEX, INC., a Delaware corporation ("Borrower"), the several banks and other financial institutions or entities from time to time parties to this Agreement ("Lenders"), and U.S. BANK NATIONAL ASSOCIATION, as administrative agent ("Administrative Agent").

RECITALS

A. On or about April 1, 2008, Borrower, Lenders and Administrative Agent entered into that certain Credit Agreement (together with all amendments, supplements, exhibits, and modifications thereto, the "Credit Agreement") whereby Lenders agreed to make available to Borrower the credit facilities described therein.

B. Borrower has requested Lenders to (1) extend the maturity date of the Revolving Loans (as defined in the Credit Agreement), and (2) modify certain other provisions of the Credit Agreement. The purpose of this Amendment is to set forth the terms and conditions upon which Lenders will grant Borrower's requests.

NOW, THEREFORE, in consideration of the mutual covenants and conditions set forth herein, the parties agree as follows:

ARTICLE I. AMENDMENT

The Credit Agreement and all of the other Loan Documents are each hereby amended as set forth herein. Except as specifically provided for herein, all of the terms and conditions of the Credit Agreement and each of the other Loan Documents shall remain in full force and effect throughout the terms of the loans described therein, as well as any extensions or renewals thereof.

ARTICLE II. DEFINITIONS; MODIFICATIONS

As used herein, capitalized terms shall have the meanings given to them in the Credit Agreement, except as otherwise defined herein, or as the context otherwise requires. Section 1.1 of the Credit Agreement is hereby amended to add or modify (as the case may be) the following defined terms:

"Change" means (a) any change after the date of this Agreement in the Risk-Based Capital Guidelines or (b) any adoption of or change in any other law, governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) or in the interpretation, promulgation, implementation or administration thereof after the date of this Agreement which affects the amount of capital required or expected to be maintained by any Lender or Issuing Lender or any corporation controlling any Lender or Issuing Lender. Notwithstanding the foregoing, for purposes of this Agreement, all requests, rules, guidelines or directives in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act shall be deemed to be a Change regardless of the date enacted, adopted or issued and all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Regulations and Supervisory Practices (or any successor or similar authority) or the United States financial regulatory authorities shall be deemed to be a Change regardless of the date adopted, issued, promulgated or implemented.

"Revolving Termination Date" means the earlier of (a) April 1, 2014 or (b) the date that all Obligations are paid in full and the Revolving Commitments are terminated.

"Risk-Based Capital Guidelines" means (a) the risk-based capital guidelines in effect in the United States on the date of this Agreement, including transition rules, and (b) the corresponding capital regulations promulgated by regulatory authorities outside the United States including transition rules, and any amendments to such regulations adopted prior to the date of this Agreement.

ARTICLE III. MODIFICATIONS TO CREDIT AGREEMENT

3.1 Pricing Grid

The pricing grid appearing immediately below the defined term "Applicable Margin" in Section 1.1 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

Pricing Level	Consolidated Leverage Ratio	Applicable Margin	Unused Commitment Fee Rate
1	£ 2.00:1.00	1.25%	0.25%
2	> 2.00:1.00 and £ 2.50:1.00	1.50%	0.30%
3	> 2.50:1.00	1.75%	0.35%

3.2 Requirements of Law

Section 4.10(a) and (b) of the Credit Agreement are hereby deleted in their entirety and replaced with the following:

(a) If, on or after the date of this Agreement, the adoption of any law or any governmental or quasi-governmental rule, regulation, policy, guideline or directive (whether or not having the force of law), or any change in the interpretation, promulgation, implementation or administration thereof by any governmental or quasi-governmental authority, central bank or comparable agency charged with the interpretation or administration thereof including, notwithstanding the foregoing, all requests, rules, guidelines or directives in connection with Dodd-Frank Wall Street Reform and Consumer Protection Act regardless of the date enacted, adopted or issued, or compliance by any Lender or Issuing Lender with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency:

(i) subjects any Lender or Issuing Lender to any taxes, or changes the basis of taxation of payments (other than net income taxes and franchise taxes (imposed in lieu of net income taxes)) to any Lender or Issuing Lender in respect of the Revolving Loans, Letter of Credit or participations therein; or

(ii) imposes or increases or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender or Issuing Lender (other than reserves and assessments taken into account in determining the interest rate applicable to the Revolving Loans or Letters of Credit); or

(iii) imposes any other condition the result of which is to increase the cost to any Lender or Issuing Lender of making, funding or maintaining the Revolving Facility, or reduces any amount receivable by any Lender or Issuing Lender in connection with any of the Revolving Loans or Letters of Credit, or requires any Lender or Issuing Lender to make any payment calculated by reference to the amount of any of the Revolving Loan or Letters of Credit by an amount deemed material by such Lender or Issuing Lender;

and the result of any of the foregoing is to increase, by an amount that the Lender or Issuing Lender agrees is material, the cost to such Lender or Issuing Lender of making or maintaining any Revolving Loan or issuing or participating in any Letter of Credit, as the case may be, or to reduce, by an amount that the Lender or Issuing Lender agrees is material, the return received by such Lender or Issuing Lender in connection therewith, then, within 15 days of demand by such Lender or Issuing Lender, Borrower shall pay such Lender or Issuing Lender such additional amount or amounts as will compensate such Lender or Issuing Lender for such increased cost or reduction in amount received. If any Lender or Issuing Lender becomes entitled to claim any additional amounts pursuant to this paragraph, it shall promptly notify Borrower (with a copy to Administrative Agent) of the event by reason of which it has become so entitled.

(b) If a Lender or Issuing Lender determines the amount of capital required or expected to be maintained by such Lender or Issuing Lender or any corporation controlling such Lender or Issuing Lender is increased as a result of a Change, then, within 15 days of demand by such Lender or Issuing Lender, Borrower shall pay such Lender or Issuing Lender the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Lender or Issuing Lender reasonably determines is attributable to this Agreement, its outstanding credit exposure or its commitment under the Revolving Facility (after taking into account such Lender's or Issuing Lender's policies as to capital adequacy).

ARTICLE IV. CONDITIONS PRECEDENT

The modifications set forth in this Amendment shall not be effective unless and until the following conditions have been fulfilled to Administrative Agent's satisfaction:

(a) Administrative Agent shall have received this Amendment, duly executed and delivered by the parties hereto and duly acknowledged by each Guarantor.

(b) All representations and warranties of Borrower contained in the Credit Agreement and the other Loan Documents or otherwise made in writing in connection therewith or herewith shall be true and correct and in all material respects have the same effect as though such representations and warranties had been made on and as of the date of this Amendment (other than those representations and warranties that relate to a specific prior date, in which case such representations and warranties shall be true and correct in all material respects as of such specific prior date).

ARTICLE V. GENERAL PROVISIONS

5.1 Representations and Warranties

Borrower hereby represents and warrants to Administrative Agent that as of the date of this Amendment there exists no Default or Event of Default. All representations and warranties of Borrower contained in the Credit Agreement and the other Loan Documents, or otherwise made in writing in connection therewith, are true and correct as of the date of this Amendment (other than those representations and warranties that relate to a specific prior date, in which case such representations and warranties shall be true and correct in all material respects as of such specific prior date). Borrower acknowledges and agrees that all of Borrower's Indebtedness to Lenders is payable without offset, defense, or counterclaim.

5.2 Security

All Loan Documents evidencing Lenders' security interest in the Collateral shall remain in full force and effect without change in priority, and shall secure the payment and performance of the Loans, as amended herein, and any other Indebtedness owing from Borrower to Lenders.

5.3 Guaranty

The parties hereto agree that all guaranties guaranteeing repayment of the Revolving Loans and all of Borrower's obligations to Administrative Agent, Lenders and Issuing Lender under the Revolving Facility, as amended by this Amendment, remain in full force and effect and are enforceable without defense, offset, or counterclaim.

5.4 Payment of Expenses

Borrower shall pay on demand all costs and expenses of Administrative Agent incurred in connection with the preparation, negotiation, execution, and delivery of this Amendment, including, without limitation, reasonable attorneys' fees incurred by Administrative Agent.

5.5 Survival of Credit Agreement

The terms and conditions of the Credit Agreement and each of the other Loan Documents shall survive until all of Borrower's obligations under the Credit Agreement are satisfied in full.

5.6 Counterparts

This Amendment may be executed in one or more counterparts, each of which shall constitute an original agreement, but all of which together shall constitute one and the same agreement.

5.7 Statutory Notice

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have caused this Amendment to be duly executed by their respective duly authorized signatories as of the date first above written.

MARCHEX, INC., a Delaware corporation

By: /s/ Michael A. Arends
Michael A. Arends, Chief Financial Officer

U.S. BANK NATIONAL ASSOCIATION, as
Administrative Agent, Issuing Lender and a Lender

By: /s/ Robert M. Ingram, III
Name: Robert M. Ingram, III
Title: Senior Vice President

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, Inc	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

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Marchex, Inc.:

We consent to the incorporation by reference in the Registration Statements on Form S-3 (333-174016) and on Form S-8 (Nos. 333-116867, 333-123753, 333-132957, 333-141797, 333-149790, 333-158394, 333-165536 and 333-172967) of Marchex, Inc. of our reports dated March 12, 2012, with respect to the consolidated balance sheets of Marchex, Inc. as of December 31, 2010 and 2011, 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, 2011, and the effectiveness of internal control over financial reporting as of December 31, 2011, which reports appear in the December 31, 2011 annual report on Form 10-K of Marchex, Inc.

/s/ KPMG LLP

Seattle, Washington
March 12, 2012

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, Russell C. Horowitz, 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 12, 2012

/s/ RUSSELL C. HOROWITZ

Russell C. Horowitz
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 12, 2012

/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, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Russell C. Horowitz, 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 12, 2012

By: /s/ RUSSELL C. HOROWITZ
Name: **Russell C. Horowitz**
Title: **Chief Executive Officer**
(Principal Executive Officer)

Dated: March 12, 2012

By: /s/ MICHAEL A. ARENDS
Name: **Michael A. Arends**
Title: **Chief Financial Officer**
(Principal Financial Officer)