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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, 2012

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 $83,183,526 as of June 30, 2012 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 8, 2013 and 28,185,224 shares of the registrant's Class B common stock issued and outstanding as of March 8, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2013 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We use words such as "believes", "intends", "expects", "anticipates", "plans", "may", "will" and similar expressions to identify forward-looking statements. All forward-looking statements, including, but not limited to, statements regarding our future operating results, financial position, prospects, acquisitions and business strategy, expectations regarding our growth and the growth of the industry in which we operate, and plans and objectives of management for future operations, are inherently uncertain as they are based on our expectations and assumptions concerning future events. In addition, there are certain risks and uncertainties relating to our proposed separation transaction which contemplates a separation of our mobile and call advertising business and our domain and advertising marketplace business, including, but not limited to, the impact and possible disruption to our operations, the timing and certainty of completing the transaction, the high costs in connection with the spin-off which we would not be able to recoup if the spin-off is not consummated, the expectation that the spin-off will be tax-free, revenue and growth expectations for the two independent companies following the spin-off, unanticipated developments that may delay or negatively impact the spin-off, and the ability of each business to operate as an independent entity upon completion of the spin-off. Any or all of our forward-looking statements in this report may turn out to be inaccurate. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. They may be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties, including the risks, uncertainties and assumptions described in Item 1A of this Annual Report on Form 10-K under the caption "Risk Factors" and elsewhere in this report. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur as contemplated, and actual results could differ materially from those anticipated or implied by the forward-looking statements. All forward-looking statements in this report are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

PART 1

ITEM 1. BUSINESS.

Overview

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

Marchex is a mobile performance advertising company that delivers customer calls to businesses and analyzes those calls so companies can get the most out of their advertising. Marchex is a leading mobile and online advertising company that drives millions of consumers to connect with businesses over the phone, delivers quality phone calls, and provides in-depth analysis of those phone calls.

Through our robust platform, we offer three critical components for businesses looking to acquire new customers through phone calls. Marchex Call Analytics offers ad campaign measurement and intelligence, and our Digital Call Marketplace and Local Leads solutions are designed for advertisers focused on new customer acquisition. The Marchex platform drives, measures and monetizes millions of mobile and online connections through the phone to advertisers each month.

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, 2010, 2011 and 2012, revenue from our proprietary web site traffic sources accounted for approximately 27%, 14%, and 8% of total revenues, respectively. We operate primarily in domestic markets. For detail on revenue by geographical area for the three most recent fiscal years, see Note 13 “Segment Reporting and Geographic Information” of the notes to our consolidated financial statements.

Marchex was incorporated in Delaware on January 17, 2003.

Proposed Separation

On November 1, 2012, Marchex announced that its board of directors has authorized Marchex to pursue the separation of its business into two distinct publicly traded entities. The separation is expected to be a tax-free pro rata distribution in which Marchex’s existing stockholders would hold interests in: (1) Marchex, a mobile advertising company focused on calls, and (2) Archeo, a domain and click-based advertising business. Completion of the proposed separation is subject to certain conditions, including final approval by Marchex’s board of directors, receipt of regulatory approvals, favorable tax rulings and/or opinions regarding the tax-free nature of the transaction to Marchex and to its stockholders, further due diligence as appropriate, and the filing and effectiveness of appropriate filings with the Securities and Exchange Commission. While Marchex expects to complete the separation during 2013, we cannot assure that the separation will be completed, and if completed, on the anticipated timeline or that the terms of the separation will not change. Following the separation, Marchex will cease to own any equity interest in Archeo, and Archeo will operate as an independent, publicly-traded company. See “Item 1A. Risk Factors” for certain risk factors relating to the proposed business separation.

Products and Services

We are a mobile performance advertising company that delivers customer calls to businesses and analyzes those calls so companies can get the most out of their advertising. 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. Our primary products are as follows:

- ***Digital Call Marketplace***. Through our Digital Call Marketplace, we deliver a variety of digital call advertising products and services to national advertisers, advertising agencies and small advertiser reseller partners. These services include providing targeted pay-for-call advertisements through the Marchex Digital Call Marketplace, and Marchex Call Analytics, one of the largest sources of call-ready media in North America. It offers exclusive and preferred ad placements across numerous mobile and online media sources, so advertisers can drive qualified calls to their businesses. It leverages our Call Analytics platform to secure call tracking numbers and to provide qualified calls to advertisers that block spam and other telemarketing calls while working to optimize the return on investment for advertisers’ marketing investment.
- ***Call Analytics***. Our Call Analytics (technology platform) provides data and insights that measure the performance of mobile, online and offline advertising for advertisers and small business resellers. It includes phone numbers, call tracking, recording, call mining, real-time intelligence and several other

insights to help advertisers make more informed campaign optimization decisions to drive quality customer calls from their advertising and measure their return on investment across all media channels. Advertisers pay us a fee for each call they receive from call-based ads we distribute through our sources of call distribution or for each phone number tracked based on a pre-negotiated rate.

- ***Local Leads.*** Our Local Leads platform, is a white-labeled, full service digital advertising solution for small business resellers, such as Yellow Pages providers and vertical marketing service providers, to sell digital call advertising and/or search marketing and other lead products through their existing sales channels to their small business advertisers. These calls and leads are then fulfilled by us across our distribution network, including mobile sources, and leading search engines. By creating a solution for companies who have relationships with small businesses, it is easier for these small businesses to participate in mobile, online, and offline call advertising. The lead services we offer to small business advertisers through our Local Leads platform include products typically available only to national advertisers, including pay-for-call, call tracking, presence management ad creation, keyword selection, geo-targeting, advertising campaign management, reporting, and analytics. The Local Leads platform has the capacity to support hundreds of thousands of advertiser accounts. Reseller partners and publishers generally pay us account fees and agency fees for our products in the form of a percentage of the cost of every 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”), Our arrangement with AT&T relates to a business unit that is included in a company formed by AT&T in 2012 called YP Holdings, LLC (“YP”) that AT&T sold a majority stake in to a private equity third party in 2012. YP is our largest reseller partner and was responsible for 27% of our total revenues for the year ended December 31, 2012, of which the majority is derived from our local leads platform.
- ***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, 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 on a 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 campaigns. 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.*** Our Proprietary Web Site Traffic 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. 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-per-click listings that are relevant to the web sites, as well as other forms of advertising, including impression-based 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 are 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 click-throughs within the Archeo Advertising Marketplace. It includes more than 200,000 web sites focused on helping users make informed decisions about products and services, including where to get local products and services.

The more than 200,000 owned and operated web sites in the network include 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-per-click listings that are relevant to the web sites, as well as other forms of advertising, including impression-based advertising.

Syndicated Distribution:

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

Our Syndicated Distribution partners include:

Selected Carriers	Selected Search Engines	Selected Call Sources and Vertical and Local Distribution Partners
AT&T	Google	Bankrate
Verizon	Microsoft	BusinessWeek.com
Sprint (Boost Mobile)	Yahoo!	CBS/CNET
Metro PCS		CityGrid
TracFone		Google Mobile
		Investopedia
		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 2012, 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 67% of online advertising while the total Internet advertising market was $4.6 billion in 1999 and is projected to be over $36 billion for the full year 2012.

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 the Gartner Group, mobile internet advertising in North America is expected to grow from approximately $3 billion in 2012 to approximately $9 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 analyze numerous factors critical to delivering calls on a performance basis, including the ability to identify and extract spam calls before those calls reach advertisers, and identify and filter different types of callers across media, we believe we will see increased adoption from advertisers. 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 Mobile Performance Advertising*.** We plan to continue to expand our range of call-based advertising product capabilities by offering innovative performance-based products like pay-for-call advertising, along with the supporting analytics including number provisioning, call tracking, call mining, keyword-level tracking and other products as part of our owned, end-to-end, call-based advertising solutions. We are also focused on growing our base of call distribution by bringing in new sources of the rapidly growing mobile advertising market as well as other online and offline sources of distribution.
- ***Innovating on Our Products for Small Businesses.*** We plan to build and integrate new products into our marketing products for small businesses, 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.

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 with both interactive and online reporting for customers and partners. We employ commercially available technologies and products distributed by various companies, including Cisco, Dell, Oracle, Intel, Microsoft, IBM, Nuance and Veritas. We also utilize public domain software such as Apache, Linux, MySQL, PostgreSQL, 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! and ReachLocal. Our Archeo Domain Marketplace competitors include Demand Media, Name Media and Oversee.net. Many of our potential competitors, as well as potential entrants into our target markets, have longer operating histories, larger customer or user bases, greater brand recognition and greater financial, marketing and other resources than we have. Many current and potential competitors can devote substantially greater resources than we can to marketing, web site and systems development. In addition, as the use of the mobile, Internet, and other online services increases, there will likely be larger, more well-established and well-financed entities that acquire companies relevant to our business strategy; and invest in or form joint ventures in categories or countries relevant to our business strategy; all of which could adversely impact our business. Any of these trends could increase competition, reduce the demand for any of our services and could have a material adverse effect on our business, operating results and financial condition.

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

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

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

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

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

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

Seasonality

We have and we believe we will experience seasonality with our business. Our quarterly results have fluctuated in the past and may fluctuate in the future due to seasonal fluctuations in levels of mobile and Internet usage and seasonal purchasing cycles of many advertisers. Our experience has shown that during the spring and summer months, mobile and Internet usage is lower than during other times of the year and during the latter part of the fourth quarter of the calendar year we generally experience lower call volume and reduced demand for calls from our mobile call advertising customers. The extent to which usage and call volume may decrease during these

off-peak periods is difficult to predict. Prolonged or severe decreases in usage and call volume during these periods may adversely affect our growth rate and results. 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.

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 Patent Number 8,259,915 (issued September 4, 2012) entitled System and Method to Analyze Calls to Advertised Telephone Numbers were all filed on July 1, 2010. 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 13/176,709 entitled “Method and System for Automatically Generating Advertising Creatives” was filed July 5, 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 and owned by Jingle Networks, which we acquired in 2011.
- U.S. Patent Number 7,702,084 entitled “Toll-Free Directory Assistance With Preferred Advertisement Listing” was issued April 20, 2010.

- U.S. Patent Number 7,961,861 entitled “Telephone Search Supported By Response Location Advertising” was issued June 14, 2011 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. Patent Number 8,175,231 entitled “Toll-Free Directory Assistance With Automatic Selection Of An Advertisement From A Category” issued May 8, 2012.
- U.S. Patent Number 8,107,602 entitled “Directory Assistance With Data Processing Station” issued January 12, 2012.
- U.S. Nonprovisional Patent Application Number 13/677,248 entitled “System and Method to Customize a Connection Interface for Multimodal Connection to a Telephone Number” was filed November 14, 2012.

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 Adhere by Marchex, DPG, Form to Phone, Local Is The New Black, Marchex, Marchex and Design, Marchex Adhere, Marchex Adhere Logo, Marchex Voice Services, Openlist, Opportunity Doesn’t Knock … it Calls!, 1-800-Free411, 1-800-Free411 and Design, JingleConnect, Jingle Networks and SwitchPitch. We also own pending U.S. trademark applications for Archeo and Digital Properties. In addition, we have trademark registrations 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 online collection of personal information about children and the use of that information. The Federal Trade Commission (FTC) has the authority to impose fines and penalties upon web site operators and online service providers that do not comply with the law's requirements. We do not currently offer any web sites or online services "directed to children," nor do we knowingly collect personal information from children.
- The Protection of Children from Sexual Predators Act requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances.
- The Controlling the Assault of Non-Solicited Pornography and Marketing (CAN-SPAM) Act of 2003 establishes requirements for those who send commercial e-mails, spells out penalties for entities that transmit noncompliant commercial e-mail and/or whose products are advertised in noncompliant commercial e-mail and gives consumers the right to opt-out of receiving commercial e-mails. The majority of the states also have adopted similar statutes governing the transmission of commercial e-mail. The FTC and the states, as applicable, are authorized to enforce the CAN-SPAM Act and the state-specific statutes, respectively. CAN-SPAM gives the Department of Justice the authority to enforce its criminal sanctions. Other federal and state agencies can enforce the law against organizations under their jurisdiction, and companies that provide Internet access may sue violators as well.
- The Electronic Communications Privacy Act prevents private entities from disclosing Internet subscriber records and the contents of electronic communications, subject to certain exceptions.
- The Computer Fraud and Abuse Act and other federal and state laws protect computer users from unauthorized computer access/hacking, and other actions by third parties which may be viewed as a violation of privacy. Courts may apply each of these laws in unintended and unexpected ways. As a company that provides services over the Internet as well as call recording and call tracking services, we may be subject to an action brought under any of these or future laws.
- Among the types of legislation currently being considered at the federal and state levels are consumer laws regulating for the use of certain types of software applications or downloads and the use of "cookies." These proposed laws are intended to target specific types of software applications often referred to as "spyware," "invasiveware" or "adware," and may also cover certain applications currently used in the online advertising industry to serve and distribute advertisements. In addition, the FTC has sought inquiry regarding the implementation of a "do-not-track" requirement. Federal legislation is also expected to be introduced that would regulate "online behavioral advertising" practices. If passed, these laws would impose new obligations for companies that use such software applications or technologies.
- The Communications Act of 1934, as amended by the Telecommunications Act of 1996 (the "Act"), and the regulations promulgated by the Federal Communications Commission under Title II of the Act, may impose federal licensing, reporting and other regulatory obligations on the Company. To the extent we contract with and use the networks of voice over IP service providers, new legislation or FCC regulation in this area could restrict our business, prevent us from offering service or increase our cost of doing business. There are an increasing number of regulations and rulings that specifically address access to commerce and communications services on the Internet, including IP telephony. We are unable to predict the impact, if any that future legislation, legal decisions or regulations concerning voice services offered via the Internet may have on our business, financial condition, and results of operations.
- The U.S. Congress, the FCC, state legislatures or state agencies may target, among other things, access or settlement charges, imposing taxes related to Internet communications, imposing tariffs or other

regulations based on encryption concerns, or the characteristics and quality of products and services that we may offer. Any new laws or regulations concerning these or other areas of our business could restrict our growth or increase our cost of doing business.

- The FCC has initiated a proceeding regarding the regulation of broadband services. The increasing growth of the broadband IP telephony market and popularity of broadband IP telephony products and services heighten the risk that the FCC or other legislative bodies will seek to regulate broadband IP telephony and the Internet. In addition, large, established telecommunication companies may devote substantial lobbying efforts to influence the regulation of the broadband IP telephony market, which may be contrary to our interests.
- There is risk that a regulatory agency will require us to conform to rules that are unsuitable for IP communications technologies or rules that cannot be complied with due to the nature and efficiencies of IP routing, or are unnecessary or unreasonable in light of the manner in which we offer voice-related services such as call recording and pay-for-call services to our customers.
- Federal and state telemarketing laws including the Telephone Consumer Protection Act, the Telemarketing Sales Rule, the Telemarketing Consumer Fraud and Abuse Prevention Act and the rules and regulations promulgated thereunder.
- Laws affecting telephone call recording and data protection, such as consent and personal data statutes. Under the federal Wiretap Act, at least one party taking part in a call must be notified if the call is being recorded. Under this law, and most state laws, there is nothing illegal about one of the parties to a telephone call recording the conversation. However, several states (i.e., California, Connecticut, Florida, Illinois, Maryland, Massachusetts, Michigan, Montana, Nevada, New Hampshire, Pennsylvania and Washington) require that all parties consent when one party wants to record a telephone conversation. The telephone recording laws in other states, like federal law, require only one party to be aware of the recording.
- The Communications Assistance for Law Enforcement Act may require that 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 domains generally is governed by Internet regulatory bodies, predominantly the Internet Corporation for Assigned Names and Numbers (ICANN). The regulation of Internet domains in the United States and in foreign countries is subject to change. ICANN and other regulatory bodies could establish

additional requirements for previously owned Internet domains or modify the requirements for Internet domains. Furthermore, ICANN has and will likely continue to make changes to the scope of domain products available to the marketplace that could have an impact on the competition for premium domain sales.

Compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business in international jurisdictions and could interfere with our ability to offer our products and services to one or more countries or expose us or our employees to fines and penalties. Our continued international expansion also subjects us to increased foreign currency exchange rate risks and will require additional management attention and resources. We cannot assure you that we will be successful in our international expansion.

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

Employees

As of December 31, 2012, we employed a total of 331 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 the Proposed Spin-off Transaction

The proposed spin-off of our mobile and call advertising business and domain and advertising marketplace business into two distinct publicly traded companies may not be completed on the terms or timeline currently contemplated, if at all.

In early November 2012, we announced our intention to pursue the separation of our mobile and call advertising business and domain and advertising marketplace business into two distinct publicly traded companies (the “Proposed Spin-off Transaction”). We are actively engaged in planning for the Proposed Spin-off Transaction. We expect to incur expenses in connection with the Proposed Spin-off Transaction and any delays in the anticipated completion of the Proposed Spin-off Transaction may increase these expenses. Unanticipated developments could delay or negatively impact the Proposed Spin-off Transaction, including those related to the

filing and effectiveness of appropriate filings with the SEC, obtaining favorable tax rulings and or opinions regarding the tax-free nature of the transaction to us and to our stockholders, receipt of regulatory approvals, completing further due diligence as appropriate, and changes in market conditions, among other things. In addition, consummation of the Proposed Spin-off Transaction will require final approval from our Board of Directors. Therefore, we cannot assure that we will be able to complete the Proposed Spin-off Transaction on the terms or on the timeline that we announced, if at all.

The post-distribution value of our Class B common stock following completion of the Proposed Spin-off Transaction may not equal or exceed the pre-distribution value of our Class B common stock.

Following completion of the Proposed Spin-off Transaction, our Class B common stock will continue to be listed and traded on the NASDAQ Global Select Market. We cannot assure you that the trading price of our Class B common stock after the distribution, as adjusted for any changes in the capitalization of Marchex, will be equal to or greater than the trading price of our Class B common stock prior to the distribution. Until the market has fully evaluated the business of Marchex without the business subject to the spin-off, the price at which our Class B common stock trades may fluctuate significantly. These changes may not meet some stockholders' investment strategies, which could cause investors to sell their shares of our Class B common stock. Excessive selling could cause the relative market price of our Class B common stock to decrease following completion of the Proposed Spin-off Transaction.

The proposed spin-off of our domain and advertising marketplace may require significant time and attention of our management, may not achieve the intended results, and may present difficulties that could have an adverse effect on us.

Execution of the Proposed Spin-off Transaction will require significant time and attention from management, which may distract management from the operation of our business and the execution of our other initiatives. Our employees may also be distracted due to uncertainty about their future roles with the separate company pending the completion of the spin-off transaction. Although the Proposed Spin-off Transaction is intended to be a tax-free pro rata distribution to our stockholders, these types of transactions are complex and there are no assurances that there will not be adverse tax liabilities in connection therewith. Further, if the spin-off transaction is completed, the transaction may not achieve the intended results. Any such difficulties could have a material adverse effect on our financial condition, results of operations or cash flows.

If the proposed spin-off is completed, our operational and financial profile will change and we will be a smaller, less diversified company.

If completed, the Proposed Spin-off Transaction will result in Marchex being a smaller, less diversified company focused on the mobile and call advertising business, which represents a narrower business focus than we currently have. We will have a more limited business with greater concentration in the commercial market and may be more vulnerable to changing market conditions, which could materially and adversely affect our business, financial condition and results of operations. In addition, the diversification of revenues, costs, and cash flows will diminish. As a result, it is possible that our results of operations, cash flows, working capital and financing requirements may be subject to increased volatility and it may be difficult or more expensive for us to obtain financing. Our operations may also be impacted by a limited ability to attract new employees in a timely manner.

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 $173.0 million as of December 31, 2012. 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 qSearch analysis of the U.S. search marketplace for December 2012, Yahoo! and Microsoft accounted for 12.2% and 16.3%, respectively, of the core search market in the United States and Google accounted for 66.7%. As a result, the larger distribution partners have greater control over determining the market terms of distribution, including placement of call and click-based advertisements and cost of placement. In addition, many participants in the performance-based advertising and search marketing industries control significant portions of mobile and online traffic that they deliver to advertisers. We do not believe, for example, that Yahoo! and Google are as reliant as we are on a third party distribution network to deliver their services. This gives these companies a significant advantage over us in delivering their services, and with a lesser degree of risk.

We rely on certain advertiser reseller partners and agencies, including YP (through our contract with AT&T's subsidiary Yellowpages.com LLC d/b/a AT&T Interactive which is included in a newly formed business unit YP Holdings, LLC), hibu (formerly Yellowbook 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. YP is our largest advertiser reseller

partner and was responsible for 27% of our total revenues for the year ended December 31, 2012. In April of 2012, AT&T sold of a majority stake in its yellow pages business unit YP Holdings, LLC (including AT&T Interactive) to a third party. We are uncertain whether such a divestiture will occur in an orderly fashion and whether it will impact our business relationship with YP. We cannot predict whether our business with YP in the future will continue at or near current levels and any decrease in such levels could have a material adverse impact on our business and results of operations.

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 50% and 51% of our revenue from our five largest customers for the years ended December 31, 2011 and 2012, 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 50% and 51% of our total revenues for the years ended December 31, 2011 and 2012, respectively. YP is our largest customer and was responsible for 27% of our total revenues for the year ended December 31, 2012 and 36% of accounts receivable at December 31, 2012. 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 or suffer disruptions in their business, their weakened financial position could negatively affect our own financial position and results.

We have a diverse customer base and, at any given time, one or more customers may experience financial distress, file for bankruptcy protection, go out of business, or suffer disruptions in their business. If a customer with whom we do a substantial amount of business experiences financial difficulty or suffers disruptions in their

business, it could delay or jeopardize the collection of accounts receivable, result in significant reductions in services provided by us and may have a material adverse effect on our results of operations and liquidity.

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

Many of our advertisement 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 listings on behalf of our advertisers or reseller partners. These advertiser listings are submitted in a bulk data feed or through the distribution partners' user interface. Although we monitor our distribution partners on an ongoing basis primarily for traffic quality, these partners control the distribution of the advertiser listings provided in the data feed or user interface submissions.

We have a large number of distribution partners who display our advertiser listings on their networks. Our advertiser listings are delivered to our distribution partners in an automated fashion through an XML data feed or data dump or through the distribution partners' user interface. Our distribution partners are contractually required to use the listings created by our advertiser customers in accordance with applicable laws and regulations and in conformity with the publication restrictions in our agreements, which are intended to promote the quality and validity of the traffic provided to our advertisers. Nonetheless, we do not operationally control or manage these distribution partners and any breach of these agreements on the part of any distribution partner or its affiliates could result in liability for our business. These agreements include indemnification obligations on the part of our distribution partners, but there is no guarantee that we would be able to collect against offending distribution partners or their affiliates in the event of a claim under these indemnification provisions. Alternatively, we may incur substantial costs as part of our indemnification obligations to distribution partners for liability they may incur as a result of displaying content we have provided them.

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

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

Our insurance policies may not provide coverage for liability arising out of activities of users of our services. In addition, our reliance on some content and information provided to us by our large advertiser reseller partners and agencies may expose us to liability not covered by our insurance policies. Furthermore, we may not

be able to obtain or maintain adequate insurance coverage to reduce or limit the liabilities associated with our businesses. Any costs incurred as a result of such liability or asserted liability could have a material adverse effect on our business, operating results and financial condition.

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 digital 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.

We believe that a consolidation of patent portfolios by major technology companies and independent asset holding companies may increase the chances of aggressive assertions of patent and other intellectual property claims. Within the technology and online sectors, among other related sectors, we have witnessed various claim holders and alleged rights holders pursue business strategies devoted to extracting settlements or license fees for a wide range of basic and commonly accepted methods and practices. We may be subject to those intellectual property claims in the ordinary course of our business. Also, our partners and customers may also find that they are subject to similar claims, in which case we may be included in any related process or dispute settlement.

Any patent or other intellectual property litigation could negatively impact our business by diverting resources and management attention from other aspects of the business and adding uncertainty as to the ownership of technology, services and property that we view as proprietary and essential to our business. In addition, a successful claim of patent infringement against us and our failure or inability to license the infringed or similar technology on reasonable terms, or at all, could prevent us from using critical technologies which could have a material adverse effect on our business.

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

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

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

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

- We could experience a substantial strain on our resources, including time and money, and we may not be successful;
- Our management’s attention could be diverted from our ongoing business concerns;
- While integrating new companies, we may lose key executives or other employees of these companies;
- We may issue shares of our Class B common stock as consideration for acquisitions which may result in ownership dilution to our stockholders;
- We could fail to successfully integrate our financial and management controls, technology, reporting systems and procedures, or adequately expand, train and manage our workforce;
- We could experience customer dissatisfaction or performance problems with an acquired company or technology;
- We could become subject to unknown or underestimated liabilities of an acquired entity or incur unexpected expenses or losses from such acquisitions;

- We could incur possible impairment charges related to goodwill or other intangible assets or other unanticipated events or circumstances, any of which could harm our business; and
- We may be exposed to investigations and/or audits by federal, state or other taxing authorities.

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

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

One potential area of growth for us is in international markets. We have initiated operations, through our subsidiaries, in 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, 2012, 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 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 recorded a non-cash impairment charge for goodwill of $16.7 million during the fourth quarter of 2012 within the Archeo segment as a result of lower projected revenue growth rates and profitability levels compared to historical results and other market-based factors.

We may be required to record a future charge to earnings in our financial statements during the period in which any additional impairment of our goodwill or amortizable intangible assets is determined. Any impairment charges or changes to the estimated amortization periods could have a material adverse effect on our financial results.

We may be required to establish a valuation allowance against our deferred tax assets.

Factors in our ability to realize a tax benefit from our deferred tax assets include tax attributes and operating results of acquired businesses, the nature, extent and periods that temporary differences are expected to reverse and our expectations about future operating results. We regularly review our deferred tax assets to assess whether or not it is more likely than not that the deferred tax assets will be realized, and if necessary, establish a valuation allowance for portions of such assets to reduce the carrying value. At the end of the fourth quarter of 2012, we recognized a partial valuation allowance of $16.4 million on our federal deferred tax assets which reduced our net deferred assets to $28.5 million. If we determine that our deferred tax assets will not result in a future tax benefit, an additional valuation allowance may be recorded 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, or by our proposed separation of Archeo into a separate public company, 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! 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 disasters, including, but not limited to, hurricanes, tornadoes, and earthquakes; and
- other unanticipated problems.

We may not have developed or implemented adequate protections or safeguards to overcome any of these events. We also may not have anticipated or addressed many of the potential events that could threaten or undermine our technology network. Any of these occurrences could cause material interruptions or delays in our business, result in the loss of data or render us unable to provide services to our customers. In addition, if a person is able to circumvent our security measures, he or she could destroy or misappropriate valuable information, including sensitive customer information, or disrupt our operations. We have deployed firewall hardware intended to thwart hacker attacks. Although we maintain property insurance and business interruption insurance, our insurance may not be adequate to compensate us for all losses that may occur as a result of a catastrophic system failure or other loss, and our insurers may not be able or may decline to do so for a variety of reasons. If we fail to address these issues in a timely manner, we may lose the confidence of our advertisers, reseller partners, and distribution partners, our revenue may decline and our business could suffer. In addition, as we expand our service offerings and enter into new business areas, we may be required to significantly modify and expand our software and technology platform. If we fail to accomplish these tasks in a timely manner, our business and reputation will likely suffer. Furthermore, some of these events could disrupt the economy and/or our customers’ business activities and in turn materially affect our operating results.

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

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

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

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 Patent Number 8,259,915 (issued September 4, 2012) entitled System and Method to Analyze Calls to Advertised Telephone Numbers were all filed on July 1, 2010. 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 13/176,709 entitled “Method and System for Automatically Generating Advertising Creatives” was filed July 5, 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 and owned by Jingle Networks, which we acquired in 2011.
- U.S. Patent Number 7,702,084 entitled “Toll-Free Directory Assistance With Preferred Advertisement Listing” was issued April 20, 2010.
- U.S. Patent Number 7,961,861 entitled “Telephone Search Supported By Response Location Advertising” was issued June 14, 2011 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. Patent Number 8,175,231 entitled “Toll-Free Directory Assistance With Automatic Selection Of An Advertisement From A Category” issued May 8, 2012.

- U.S. Patent Number 8,107,602 entitled “Directory Assistance With Data Processing Station” issued January 12, 2012.
- U.S. Nonprovisional Patent Application Number 13/677,248 entitled “System and Method to Customize a Connection Interface for Multimodal Connection to a Telephone Number” was filed November 14, 2012.

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

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

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

We may initiate patent litigation against third parties to protect or enforce our patent rights, and we may be sued by others seeking to invalidate our patents or prevent the issuance of future patents. We may also become subject to interference proceedings conducted in the patent and trademark offices of various countries to determine the priority of inventions. The defense and prosecution, if necessary, of intellectual property suits, interference proceedings and related legal and administrative proceedings is costly and may divert our technical and management personnel from their normal responsibilities. We may not prevail in any of these suits. An adverse determination of any litigation or defense proceedings could put our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not being issued.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, during the course of this kind of litigation, there could be public announcements of the results of hearings, motions or other interim proceedings or developments in the litigation. If securities analysts or investors perceive these results to be negative, it could have an adverse effect on the trading price of our Class B common stock.

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

Our quarterly results have fluctuated in the past and may fluctuate in the future due to seasonal fluctuations in the level of mobile and Internet usage and seasonal purchasing cycles of many advertisers. Our experience has shown that during the spring and summer months of the year, mobile and Internet usage is lower than during other times of the year and during the latter part of the fourth quarter of the calendar year we generally experience lower call volume and reduced demand for calls from our mobile call advertising customers. The

extent to which usage and call volume may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage and call volume during these periods may adversely affect our growth rate and 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 online collection of personal information about children and the use of that information. The Federal Trade Commission (FTC) has the authority to impose fines and penalties upon web site operators and online service providers that do not comply with the law's requirements. We do not currently offer any web sites or online services "directed to children," nor do we knowingly collect personal 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, 2012. Our stock prices may fluctuate in response to a number of events and factors, which may be the result of our business strategy or events beyond our control, including:

- developments concerning proprietary rights, including patents, by us or a competitor;
- announcements by us or our competitors of significant contracts, acquisitions, financings, commercial relationships, joint ventures or capital commitments;
- registration of additional shares of Class B common stock in connection with acquisitions;
- actual or anticipated fluctuations in our operating results;
- lawsuits initiated against us or lawsuits initiated by us;
- announcements of acquisitions or technical innovations;
- potential loss or reduced contributions from distribution partners, reseller partners and agencies, or advertisers;
- changes in growth or earnings estimates or recommendations by analysts;
- changes in the market valuations of similar companies;
- changes in our industry and the overall economic environment;
- volume of shares of Class B common stock available for public sale, including upon conversion of Class A common stock or upon exercise of stock options;
- Class B common stock repurchases under our 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, 2012, 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. We

accelerated and paid all four of our 2013 quarterly cash dividends on December 31, 2012. 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.

Upon completion of the Proposed Spin-off Transaction, the quarterly dividend payments are anticipated to be transitioned from Marchex to Archeo. There can be no assurances that Archeo will continue to pay dividends at such rate or at all.

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, and New York, New York with lease terms expiring between April 2014 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, 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
Year ended December 31, 2012		
First Quarter	$ 6.25	$4.03
Second Quarter	$ 4.47	$3.19
Third Quarter	$ 4.26	$3.08
Fourth Quarter	$ 4.46	$3.64

Holders

As of March 8, 2013, there were 37,455,606 shares of common stock outstanding that were held by 66 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
- 28,185,224 shares were issued as Class B common stock, and as of this date were held by 62 stockholders of record.

Dividends

In November 2006, we initiated a quarterly cash dividend at $0.02 per share of Class A common stock and Class B common stock. In August 2012, our board of directors approved an increase to the quarterly cash dividend to Class A and Class B common stockholder from $0.02 per share to $0.035 per share. Although we expect that the annual cash dividend, subject to capital availability, will be $0.14 per common share or approximately $5.2 million for the foreseeable future, there can be no assurance that we will continue to pay dividends at such rate or at all. In December 2012, our board of directors declared a quarterly dividend for the first, second, third and fourth quarters of 2013 totaling $0.14 per share on our Class A common stock and Class B common stock which was paid on December 31, 2012 to holders of record as of the close of business on December 18, 2012. The dividend paid totaled approximately $5.3 million. Upon completion of the proposed separation, the quarterly dividend payments are anticipated to be transitioned from Marchex to Archeo. There can be no assurances that Archeo will continue to pay dividends at such rate or at all.

Issuer Purchases of Equity Securities

During the fourth quarter of 2012, 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, 2012 [2]	22,264	$ 1.87	10,764	1,760,022
November 1 - November 30, 2012 [2], [3]	199,952	$ 0.19	9,100	1,750,922
December 1 - December 31, 2012 [2], [3]	18,402	$ 0.51	2,300	1,748,622
Total Class B Common Shares	240,618	$ 0.37	22,164	1,748,622

(1) We have established a share repurchase program which authorizes the Company to repurchase up to 13 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.

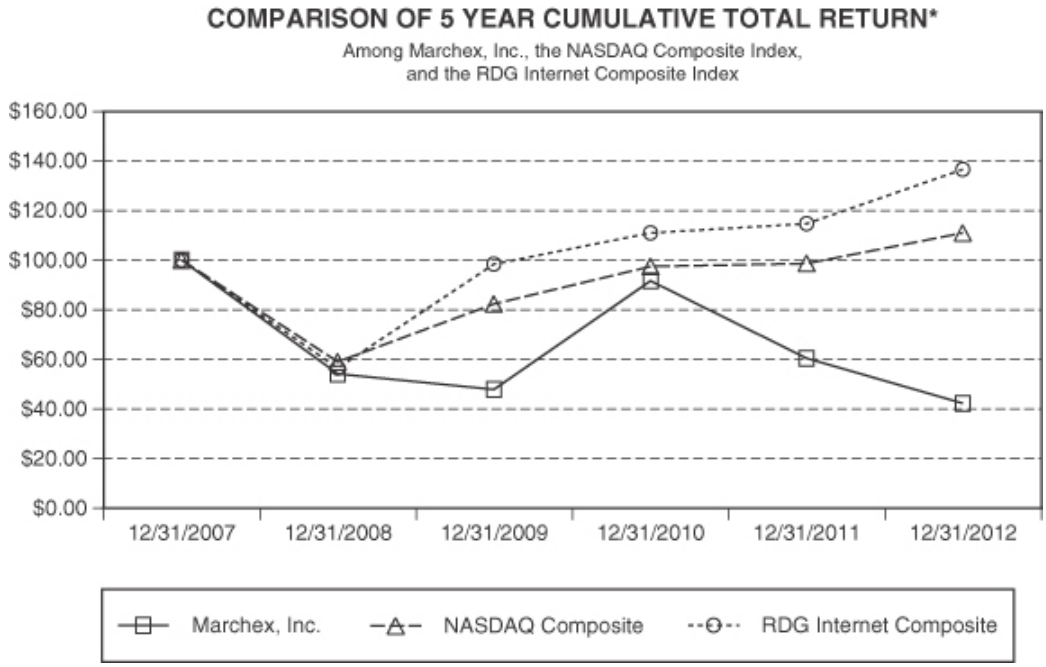
(2) Includes 11,500, 190,852 and 16,102 shares of restricted equity subject to vesting for the periods ending October 31, 2012, November 30, 2012 and December 31, 2012, respectively, which were issued to a certain employees. We repurchased shares which were not already vested for $0.01 share upon termination of employment.

(3) Includes 11,109 and 372,923 shares of the Company's Class B common stock for the periods November 30, 2012 and December 31, 2012, respectively, which were repurchased to satisfy the employees' minimum tax withholding obligations in connection with the vesting of restricted stock awards and was based on the fair market value on the vesting date.

Stock Performance Graph

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

The following graph shows a comparison from December 31, 2007 through December 31, 2012 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, 2007 through 2012. The graph assumes that $100 was invested on December 31, 2007 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 12/31/07 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12
Marchex, Inc.	$ 100.00	$ 54.16	$ 48.03	$ 91.53	$ 60.55	$ 42.34
NASDAQ Composite Index	$ 100.00	$ 59.03	$ 82.25	$ 97.32	$ 98.63	$ 110.78
RDG Internet Composite Index	$ 100.00	$ 56.53	$ 98.33	$ 110.81	$ 114.60	$ 136.20

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, 2008 and 2009 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, 2010, 2011 and 2012, and the consolidated balance sheet data at December 31, 2011 and 2012, 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,				
	2008	2009	2010	2011	2012
Revenue	$ 146,375	$93,261	$97,566	$146,726	$138,305
Income (loss) from operations	$(175,286)	$ (3,570)	$ (3,789)	$ 6,030	$ (18,190)
Net income (loss)	$(127,864)	$ (2,062)	$ (3,043)	$ 2,959	$ (35,196)
Net income (loss) applicable to common stockholders	$(128,132)	$ (2,249)	$ (3,242)	$ 2,700	$ (35,853)
Basic and diluted net income (loss) per share applicable to Class A stockholders	$ (3.52)	$ (0.07)	$ (0.10)	$ 0.08	$ (1.06)
Basic and diluted net income (loss) per share applicable to Class B common stockholders	$ (3.52)	$ (0.07)	$ (0.10)	$ 0.08	$ (1.05)
Shares used to calculate basic net income (loss) per share applicable to common stockholders					
Class A	10,964	10,884	10,661	9,928	9,574
Class B	25,468	22,830	21,993	23,358	24,412
Shares used to calculate diluted net income (loss) per share applicable to common stockholders					
Class A	10,964	10,884	10,661	9,928	9,574
Class B	36,432	33,714	32,654	35,318	33,986

Consolidated Balance Sheet Data (in thousands):

	December 31,				
	2008	2009	2010	2011	2012
Cash and cash equivalents	$ 27,418	$ 33,638	$ 37,328	$ 37,443	$ 15,930
Working capital	$ 34,988	$ 41,273	$ 47,305	$ 16,168	$ 21,683
Total assets	$ 170,270	$ 159,373	$ 159,690	$ 220,058	$ 149,147
Other non-current liabilities	$ 23	$ 1,005	$ 2,076	$ 2,580	$ 2,216
Total liabilities	$ 20,962	$ 17,948	$ 19,998	$ 61,050	$ 26,212
Total stockholders’ equity	$ 149,308	$ 141,425	$ 139,692	$ 159,008	$ 122,935
Cash dividends declared per common share	$ 0.08	$ 0.08	$ 0.08	$ 0.08	$ 0.25

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 mobile performance company that delivers consumer calls to businesses and analyzes those calls. We also provide performance-based online advertising that connects advertisers with consumers across our owned web sites as well as third party web sites.

Our technology-based products and services facilitate the efficient and cost-effective marketing and selling of goods and services for small and national advertisers who want to market and sell their products through 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. Our primary products are as follows:

- ***Digital Call Advertising Services.*** Through our Digital Call Marketplace, we deliver a variety of digital call advertising products and services to national advertisers, advertising agencies and small advertiser reseller partners. These services include providing targeted pay-for-call advertisements through the Marchex Digital Call Marketplace, and Marchex Call Analytics, one of the largest sources of call-ready media in North America. It offers exclusive and preferred ad placements across numerous mobile and online media sources, so advertisers can drive qualified calls to their businesses. It leverages our Call Analytics platform to secure call tracking numbers and to provide qualified calls to advertisers that block spam and other telemarketing calls while working to optimize the return on investment for advertisers' marketing investment.
- ***Call Analytics***. Our Call Analytics (technology platform) provides data and insights that measure the performance of mobile, online and offline advertising for advertisers and small business resellers. It includes phone numbers, call tracking, recording, call mining, real-time intelligence and several other insights to help advertisers make more informed campaign optimization decisions to drive quality customer calls from their advertising and measure their return on investment across all media channels. Advertisers pay us a fee for each call they receive from call-based ads we distribute through our sources of call distribution or for each phone number tracked based on a pre-negotiated rate.
- ***Local Leads.*** Our Local Leads platform, is a white-labeled, full service digital advertising solution for small business resellers, such as Yellow Pages providers and vertical marketing service providers, to sell digital call advertising and/or search marketing and other lead products through their existing sales channels to their small business advertisers. These calls and leads are then fulfilled by us across our distribution network, including mobile sources, and leading search engines. By creating a solution for companies who have relationships with small businesses, it is easier for these small businesses to participate in mobile, online, and offline call advertising. The lead services we offer to small business advertisers through our Local Leads platform include products typically available only to national advertisers, including pay-for-call, call tracking, presence management ad creation, keyword selection, geo-targeting, advertising campaign management, reporting, and analytics. The Local Leads platform has the capacity to support hundreds of thousands of advertiser accounts. Reseller partners and publishers generally pay us account fees and agency fees for our products in the form of a percentage of the cost of every click or call delivered to their advertisers. Through our contract with Yellowpages.com LLC d/b/a AT&T Interactive which is a subsidiary of AT&T (collectively, "AT&T"), our arrangement with AT&T relates to a business unit that is included in a newly formed unit called YP Holdings, LLC

("YP") that AT&T sold a majority stake in to a private equity third party in 2012. YP is our largest reseller partner and was responsible for 27% of our total revenues for 2012 of which the majority is derived from our local leads platform.

- ***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, as well as presence management services. 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, 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 vertical, site or on a 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 campaigns. 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.*** Our Proprietary Web Site Traffic 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. 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-per-click listings that are relevant to the web sites, as well as other forms of advertising, including impression-based advertising.

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

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

Acquisition

On April 7, 2011, we 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%. In April 2012 and October 2012, the Company paid approximately $16.9 million and $17.9 million in cash, net of certain working capital and other adjustments, on the first and 18th month anniversary of closing, respectively.

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 was recorded as current deferred acquisition payments in the balance sheet in 2011.

Proposed Separation

On November 1, 2012, Marchex announced that its board of directors has authorized Marchex to pursue the separation of its business into two distinct publicly traded entities. The separation is expected to be a tax-free pro rata distribution in which Marchex's existing stockholders would hold interests in: (1) Marchex, a mobile advertising company focused on calls, and (2) Archeo, a domain and click-based advertising business. Completion of the proposed separation is subject to certain conditions, including final approval by Marchex's board of directors, receipt of regulatory approvals, favorable tax rulings and/or opinions regarding the tax-free nature of the transaction to Marchex and to its stockholders, further due diligence as appropriate, and the filing and effectiveness of appropriate filings with the Securities and Exchange Commission. While Marchex expects to complete the separation during 2013, we cannot assure that the separation will be completed and if completed on the anticipated timeline or that the terms of the separation will not change. Following the separation, Marchex will cease to own any equity interest in Archeo, and Archeo will operate as an independent, publicly-traded company. See "Item 1A. Risk Factors" for certain risk factors relating to the proposed business separation.

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, 2010, 2011 and 2012.

Revenue

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

Our primary sources of revenue are the performance-based advertising services, which include digital call advertising, pay-per-click services and cost-per-action services. These primary sources amounted to greater than 79% of our revenues in all periods presented. Our secondary sources of revenue are our local leads platform which enables partner resellers to sell call advertising and/or search marketing products and campaign management services. These secondary sources amounted to less than 21% 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 local leads platform 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.

Search Marketing Services

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

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

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

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, including due to the economic uncertainty resulting from recent disruptions in global financial markets.

In addition, we believe we will experience seasonality. Our quarterly results have fluctuated in the past and may fluctuate in the future due to seasonal fluctuations in levels of mobile and Internet usage and seasonal purchasing cycles of many advertisers. Our experience has shown that during the spring and summer months, mobile and Internet usage is lower than during other times of the year and during the latter part of the fourth quarter of the calendar year we generally experience lower call volume and reduced demand for calls from our mobile call advertising customers. The extent to which usage and call volume may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage and call volume during these periods may adversely affect our growth rate and results. 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. These variable payments are often subject to minimum payment amounts per phone call or click-through. Other payment structures that to a lesser degree exist include:

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

We expense user acquisition costs based on whether the agreement provides for fixed or variable payments. Agreements with fixed payments with minimum guaranteed amounts of usage are expensed 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 measure stock-based compensation cost at the grant date based on the fair value of the award and recognize it as expense, net of estimated forfeitures, over the vesting or service period, as applicable, of the stock award using the straight-line method. Stock-based compensation expense has been included in the same lines as compensation paid to the same employees in the consolidated statement of operations.

Amortization of Intangibles from Acquisitions

Amortization of intangible assets excluding goodwill 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.

As of December 31, 2012, we have net deferred tax assets of $28.5 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. At December 31, 2011 and 2012, the Company recorded a valuation allowance of $4.6 million and $21.6 million, respectively, against its federal, state, city and foreign net deferred tax assets, as it believes it is more likely than not that these benefits will not be realized. The change in the valuation allowance in 2012 was approximately $17.0 million.

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. At the end of the fourth quarter of 2012, we recognized a partial valuation allowance of $16.4 million on our federal deferred tax assets. In assessing whether it is more likely than not that our deferred tax assets will be realized, factors considered included: historical taxable income, historical trends related to advertiser usage rates, projected revenues and expenses, macroeconomic conditions, issues facing our industry, existing contracts, our ability to project future results and any appreciation of our other assets. During the fourth quarter of 2012, we incurred a $16.7 million goodwill impairment loss within our Archeo operating segment due in part to lower projected revenue growth rates and profitability levels within Archeo compared to historical results.

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. Consequently, based on projections of future taxable income and tax planning strategies, we expect to be able to recover a portion of these assets. Although realization is not assured, we believe it is more likely than not, based on our operating performance, existing deferred tax liabilities, projections of future taxable income and tax planning strategies, that our net deferred tax assets, excluding certain state and foreign net operating loss carryforwards, will be realized. 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.

As of December 31, 2012, 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 $5.2 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, 2012, 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, 2011 and 2012, we had certain federal NOL carryforwards of $1.7 million which will begin to expire in 2019. The Tax Reform Act of 1986 limits the use of NOL and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. We believe that such a change has

occurred, and that 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 in 2011, the Company acquired federal NOL carryforwards. 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 the acquired NOL carryforwards that may be utilized is approximately $7.0 million. In 2011, the Company utilized approximately $2.6 million.

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

Comparison of the year ended December 31, 2011 (2011) to the year ended December 31, 2012 (2012) and comparison of the year ended December 31, 2010 (2010) to the year ended December 31, 2011 (2011).

Segments

During the fourth quarter of 2012, we announced our intention to pursue a spin-off of Archeo and the corresponding organizational changes, resulted in a change to our reportable operating segments. The new reporting disaggregates our operations into: (1) the Call-driven segment which is comprised of our performance-based advertising business focused on driving phone calls; and (2) the Archeo segment which is comprised of our click-based advertising and Internet domain name businesses. Prior to the fourth quarter of 2012, the Company operated in a single reportable operating segment.

Revenue.

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

	Years ended December 31,		
	2010	2011	2012
Partner and Other Revenue Sources	$71,537	$126,210	$127,415
Proprietary Web Site Traffic Sources	26,029	20,516	10,890
Total Revenue	$97,566	$146,726	$138,305

The following table presents our revenues, by operating segments, for the periods presented:

	Years ended December 31,		
	2010	2011	2012
Call-driven	$46,961	$101,830	$ 111,886
Archeo	50,605	44,896	26,419
Total Revenue	$97,566	$146,726	$138,305

2011 to 2012

Our partner network revenues are primarily generated using third party distribution networks to deliver the pay-for-call and pay-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 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 decreased 6% from $146.7 million for 2011 compared to $138.3 million in 2012. The partner and other revenues increased $1.2 million due almost entirely to increased revenues from our call advertising services and partially attributable to the April 2011 Jingle acquisition. Our call advertising services revenue increases are primarily due to increase in national advertiser budgets and thousands of additional small business accounts utilizing our call analytics platform. This increase was offset by a $9.2 million decrease in revenue from our pay-per-click services primarily due to fewer advertisers and lower advertiser spend amounts.

Our proprietary web site traffic revenues decreased $9.6 million and were primarily due to $8.0 million in lower revenues for cost-per-actions from resellers related to our local search and directory web sites. The remainder of such decrease was largely due to lower revenues from our arrangement with Google whereby we receive payment upon click-throughs on per-per-click listings presented on our web sites. This decrease was principally due to fewer click-throughs to our web sites. In the near term, we expect modestly lower to similar proprietary web site traffic revenues as a result of modestly lower budgets for cost-per-actions from resellers particularly related to our local search and directory web sites.

Our arrangement with AT&T relates to a business unit that AT&T formed in 2012 called YP Holdings, LLC ("YP") that AT&T sold a majority stake in to a private equity third party. Under our primary arrangement with YP, we generate revenues from our local leads platform to sell call advertising and /or search marketing packages through their existing sales channels, which are then fulfilled by us across our distribution network. We are paid account fees and 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 YP through September 30, 2015 that includes certain exclusivity provisions for new advertiser accounts and migration of several thousand existing advertiser accounts. It is possible the partial divestiture of this business unit by AT&T may result in changes to our relationship and arrangement with YP, including changes that may result in a significant reduction in the paid account fees and agency fees that we receive from YP. There can be no assurance that our business with YP in the future will continue at or near current levels. YP accounted for 23%, 31% and 27% of total revenues during the years ended December 31, 2010, 2011 and 2012, respectively.

2010 to 2011

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 local leads products which in part was driven by adding tens of thousands of national and small business accounts across our call advertising services and local leads product platforms and certain pricing reductions and incentives provided to YP in 2010. We estimated these incentives in comparison to the prior pricing arrangement likely generated an estimated $8 million in savings to YP 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.

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. Companies distributing advertising through the Internet and mobile sources have experienced, and will likely to continue experience, consolidation. If we do not add new distribution partners, renew our current distribution partner agreements or replace traffic lost from terminated distribution agreements with other sources or if our distribution partners' businesses do not grow or are adversely affected or our distribution partners adversely impact market terms of distribution, 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 we will deliver to our advertisers and how much advertisers will spend with us, and it is even more difficult to anticipate the average revenue per phone call or click-through. It is also difficult to anticipate the impact of worldwide economic conditions on advertising budgets, including due to the economic uncertainty resulting from periodic disruptions in global financial markets.

In addition, we believe we will experience seasonality with our business. Our quarterly results have fluctuated in the past and may fluctuate in the future due to seasonal fluctuations in levels of mobile and Internet usage and seasonal purchasing cycles of many advertisers. Our experience has shown that during the spring and summer months, mobile and Internet usage is generally lower than during other times of the year and during the latter part of the fourth quarter of the calendar year we generally experience lower call volume and reduced demand for calls from our mobile call advertising customers. The extent to which usage and call volume may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage and call volume during these periods may adversely affect our growth rate and results. 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.

Expenses

Expenses were as follows (in thousands):

	Twelve months ended December 31,					
	2010	% revenue	2011	% revenue	2012	% revenue
Service costs	$ 57,557	59%	$ 81,835	56%	$ 80,594	58%
Sales and marketing	13,530	14%	15,434	11%	13,671	10%
Product development	16,804	17%	22,794	16%	23,395	17%
General and administrative	17,507	18%	22,709	15%	22,911	17%
Amortization of intangible assets from acquisitions	2,729	3%	5,455	4%	4,728	3%
Acquisition related costs	—	0%	1,890	1%	753	1%
	$108,127	111%	$150,117	103%	$146,052	106%

We record stock-based compensation expense under the fair value method. In 2012, we recorded $15.7 million of stock-based compensation expense as compared to $15.1 million in 2011 and $10.8 million in 2010. 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,		
	2010	2011	2012
Service costs	$ 805	$ 1,291	$ 1,904
Sales and marketing	799	1,505	2,039
Product development	1,015	1,416	1.051
General and administrative	8,213	10,931	10,702
Total stock-based compensation	$10,832	$15,143	$15,696

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

Service Costs. Service costs decreased 2%, from $81.8 million in 2011 to $80.6 million in 2012. The decrease was primarily attributable to a decrease in distribution partner payments, personnel costs, Internet domain amortization, depreciation, facility costs, and fees paid to outside service providers totaling $3.5 million, partially offset primarily by an increase in communication and network costs and stock-based compensation and to a lesser extent as a result of the April 2011 Jingle acquisition. Service costs, excluding stock-based compensation, related to the Archeo segment decreased 41%, from $23.8 million in 2011 to $14.0 million in 2012 primarily due to a decrease in distribution partner payments. Service costs, excluding stock-based compensation, related to the Call-driven segment increased 14%, from $56.7 million in 2011 to $64.6 million in 2012 primarily due to increases in distribution partner payments and communication and network 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 represented 58% of revenue in 2012 compared to 56% in 2011 and 59% in 2010. The 2012 increase as a percentage of revenue in service costs compared to 2011 was primarily a result of our proprietary web site traffic revenues comprising a lower proportion of revenue compared to 2011. Proprietary web site traffic revenues have a lower service cost as a percentage of revenue relative to our overall service cost percentage. 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.

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, calls and traffic and invest in our platforms.

Sales and Marketing. Sales and marketing expenses decreased 11% from $15.4 million in 2011 to $13.7 million in 2012. As a percentage of revenue, sales and marketing expenses were 11% and 10% for 2011 and 2012, respectively. The net decrease in dollars and percentage of revenue was related primarily to decreases in personnel and online and outside marketing activities totaling $2.5 million partially offset by an increase in depreciation and stock-based compensation related to the acceleration of certain restricted shares as part of a separation agreement totaling $892,000. Sales and marketing costs, excluding stock-based compensation, related to the Archeo segment decreased 37% from $3.9 million to $2.5 million due primarily to a decrease in online and outside marketing activities. Sales and marketing costs, excluding stock-based compensation, related to the Call-driven segment decreased 8% from $10.0 million to $9.2 million due primarily to a decrease in online and outside marketing activities and personnel costs partially offset by an increase in depreciation. We expect some volatility in sales and marketing expenses based on the timing of marketing initiatives but expect sales and marketing expenses in the near term to be relatively stable to modestly higher in absolute dollars. We expect that sales and marketing expenses will increase in connection with any revenue increase to the extent that we also increase our marketing activities and correspondingly could increase as a percentage of revenue.

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.

Product Development. Product development expenses increased 3% from $22.8 million in 2011 to $23.4 million in 2012. The increase in dollars was primarily due to an increase in personnel costs, travel costs and depreciation totaling $936,000 partly related to the April 2011 Jingle acquisition. This increase was partially offset primarily by a decrease in stock-based compensation. As a percentage of revenue, product development expenses were 16% and 17% in 2011 and 2012, respectively. The 2012 increase as a percentage of revenue in product development expense as compared to 2011 was primarily a result of lower revenues with product development remaining relatively stable in absolute dollars. Product development expenses, excluding stock-based compensation, related to the Archeo segment decreased 37% from $4.0 million to $2.5 million primarily due to a decrease in personnel costs. Product development expenses, excluding stock-based compensation, related to the Call-driven segment increased 14% from $17.4 million to $19.9 million primarily due to an increase in personnel costs.

We expect product development expenditures in the near term to be relatively stable to modestly higher 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 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.

General and Administrative. General and administrative expenses increased 1%, from $22.7 million in 2011 to $22.9 million in 2012. General and administrative expenses remained relatively stable compared to 2011. As a

percentage of revenue, general and administrative expenses were 15% and 17% in 2011 and 2012, respectively. The 2012 increase as a percentage of revenue in general and administrative expenses was primarily a result of lower revenues with general and administrative expenses remaining relatively stable in absolute dollars. General and administrative expenses, excluding stock-based compensation, related to the Archeo segment decreased 16% from $1.9 million to $1.6 million due primarily to a decrease in personnel costs and business taxes which was partially offset by an increase in bad debt. General and administrative expenses, excluding stock-based compensation, related to the Call-driven segment increased 7% from $9.9 million to $10.6 million due primarily to an increase in personnel costs. We expect our general and administrative expenses to decrease modestly in the near term as a result of lower stock-based compensation. 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 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.

Amortization of Intangible Assets from Acquisitions. Intangible amortization expense decreased from $5.5 million in 2011 to $4.7 million in 2012. The decrease was associated with certain intangible assets acquired in the Jingle acquisition in April 2011 and other acquisitions prior to 2011 being fully amortized. During 2012, the amortization of intangibles related to service costs, sales and marketing and general and administrative expenses.

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.

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

No impairment of our intangible assets, excluding goodwill, have been identified in 2012. 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 intangible assets for impairment and may recognize an additional impairment loss to the extent that the carrying amount exceeds such asset’s fair value.

Acquisition and separation related costs. Acquisition and separation related costs of $753,000 were primarily for professional fees and other procedures associated with our proposed separation of our business into two distinct publicly traded companies partially offset by a $132,000 benefit recorded in the first quarter of 2012 related a revision in our original estimates regarding the future obligation related to the Jingle office space. We expect to incur additional separation related costs through the expected separation date.

Acquisition and separation related costs in 2011 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.

Impairment of goodwill. We perform our annual impairment testing in accordance with the Accounting Standards Codification 350, *Intangibles—Goodwill and Other* on November 30. As a result of this testing, we recorded a $16.7 million non-cash impairment charge on goodwill within the Archeo segment. During the fourth quarter of 2012, we announced our intention to pursue a spin-off of Archeo and the corresponding organizational changes, resulted in a change in to the our reporting units for purposes of assessing potential impairment of goodwill. The estimated fair value of the Archeo reporting unit was based on the estimates of future operating results, discounted cash flows and other market-based factors. The goodwill impairment recorded within the Archeo reporting unit resulted from the newly associated amounts of goodwill allocated upon the commencement of the reporting unit designation in the fourth quarter, and the operating results including lower projected revenue growth rates and profitability levels compared to historical results.

Gain on sales and disposals of intangible assets, net. The gain on sales and disposals of intangible assets, net was $6.3 million in 2012 and was attributable to the sales and disposals of Internet domain names and other intangible assets. The decrease was due to fewer number of domain sales during 2012 compared to the same period in 2011. The gain on sales and disposals of intangible assets, net was $6.8 million and $9.4 million in 2010 and 2011, respectively.

Other income (expense), net. Other income (expense), net were ($458,000) and ($449,000) in 2011 and 2012, respectively. The net decrease in other income (expense), net during 2012 was primarily due to a decrease in accretion of interest expense related to the deferred acquisition consideration for the Jingle acquisition offset by a decrease in other income.

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.

Income Taxes. The income tax expense in 2011 was $2.6 million compared to $16.6 million in 2012. 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 2012, the effective tax rate of (89)% differed from the expected effective tax rate of 34% due primarily to establishment of a partial valuation allowance on our federal deferred tax assets, non-deductible goodwill impairment and other items such as state income taxes, non-deductible stock-based compensation related to restricted stock and incentive stock options recorded under the fair-value method, non-cash accretion of interest expense, and other non-deductible amounts. At the end of the fourth quarter of 2012, we recognized a partial valuation allowance of $16.4 million on our federal deferred tax assets. In assessing whether it is more likely than not that our deferred tax assets will be realized, factors considered included: historical taxable income, historical trends related to advertiser usage rates, projected revenues and expenses, macroeconomic conditions, issues facing our industry, existing contracts, our ability to project future results and any appreciation of our other assets.

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 addition, we recorded $362,000 of income tax benefit associated with our federal return audits for years 2005 through 2009. During 2010, 2011 and 2012, we recognized excess tax benefits (shortfalls) on stock option exercises, restricted stock vesting, and dividends paid on unvested restricted stock of approximately ($537,000), $913,000, and ($4.0) million, respectively, which were recorded to additional paid in capital.

Net Income (Loss). Net income decreased from $3.0 million in 2011 to a net loss of $35.2 million in 2012. The decrease was primarily attributable to the non-cash charges related to the goodwill impairment and valuation allowance totaling $33.1 and a decrease in revenues and gain on sales and disposals of intangible assets, net partially offset by a decrease in operating expenses.

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.

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, 2012. 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, 2011**	**June 30, 2011**	**Sept 30, 2011**	**Dec 31, 2011**	**Mar 31, 2012**	**June 30, 2012**	**Sept 30, 2012**	**Dec 31, 2012**
Consolidated Statement of Operations:								
Revenue	$29,080	$ 38,761	$39,862	$39,023	$35,481	$ 34,013	$34,822	$ 33,989
Expenses:								
Service costs [1]	16,672	21,701	21,848	21,614	19,937	19,240	20,636	20,388
Sales and marketing [1]	2,695	3,933	4,547	4,259	3,913	4,606	2,795	2,694
Product development [1]	4,889	5,937	6,132	5,836	5,992	5,775	5,528	6.009
General and administrative [1]	5,155	6,139	5,860	5,555	6,295	5,480	5,717	5,566
Acquisition and separation related costs	402	1,049	62	377	(132)	—	296	589
Amortization of intangible assets from acquisitions [2]	464	1,620	1,672	1,699	1,537	1,082	1,055	1,054
Total operating expenses	30,277	40,379	40,121	39,340	37,542	36,183	36,027	36,300
Impairment of goodwill	—	—	—	—	—	—	—	(16,739)
Gain on sales and disposals of intangible assets, net	1,913	2,712	2,487	2,309	1,463	3,258	713	862
Income (loss) from operations	716	1,094	2,228	1,992	(598)	1,088	(492)	(18,188)
Other income (expense):								
Interest income	131	7	3	—	3	3	3	5
Interest and line of credit expense	(26)	(183)	(198)	(197)	(197)	(111)	(111)	(19)
Other	(3)	2	(1)	7	(3)	(6)	(10)	(6)
Total other income (expense)	102	(174)	(196)	(190)	(197)	(115)	(118)	(20)
Income (loss) before provision for income taxes	818	920	2,032	1,802	(795)	973	(610)	(18,208)
Income tax expense (benefit)	242	779	778	814	(80)	577	(67)	16,127
Net income (loss)	576	141	1,254	988	(715)	396	(543)	(34,335)
Dividends paid to participating securities	(63)	(61)	(67)	(68)	(73)	(66)	(123)	(394)
Net income (loss) applicable to common stockholders	$ 513	$ 80	$ 1,187	$ 920	$ (788)	$ 330	$ (666)	$(34,729)

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

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

Service costs	$ 464	$ 1,314	$ 1,359	$ 1,378	$ 1,216	$ 774	$ 748	$ 747
Sales and marketing	—	292	298	307	307	307	307	307
General and administrative	—	14	15	14	14	1	—	—
Total	$ 464	$ 1,620	$ 1,672	$ 1,699	$ 1,537	$ 1,082	$ 1,055	$ 1,054

Liquidity and Capital Resources

As of December 31, 2011 and 2012, we had cash and cash equivalents of $37.4 million and $15.9 million, respectively. As of December 31, 2012, we had current and long term contractual obligations of $17.4 million and $11.9 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, impairment of goodwill and changes in working capital.

Cash provided by operating activities for the year ended December 31, 2012 of approximately $19.9 million consisted primarily of net loss of $35.2 million adjusted for non-cash items of $59.2 million, including depreciation, amortization of intangible assets, allowance for doubtful accounts and advertiser credits, stock-based compensation, acquisition related costs, accretion of interest, excess tax benefit related to stock-based compensation, deferred income taxes that includes a $16.4 million valuation allowance, and impairment of goodwill, gain on sales and disposals of intangible and fixed assets, net of $6.3 million and $2.2 million provided by working capital and other activities. Included in the working capital amount is $881,000 of interest accretion paid as part of the 12-month and 18-month deferred acquisition payments made in April and October 2012, respectively.

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.

With respect to a significant portion of our pay-for call and pay-per-click advertising services, the amount payable to the distribution partners will be calculated at the end of a calendar month, with a payment period following the delivery of the phone calls or click-throughs. These services constituted the majority of revenue in 2010, 2011 and 2012. We generally receive payment from advertisers within several weeks or in close proximity to the corresponding payments to the distribution partners who provide placement for the listings. In certain cases, payments to distribution partners are paid in advance or are fixed in advance based on a guaranteed minimum amount of usage delivered. We have no corresponding payments to distribution partners related to our proprietary web site traffic revenues.

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

We have payment arrangements with reseller partners particularly related to our proprietary web site traffic sources or our local leads and call analytics services, such as YP, SuperMedia Inc., hibu (formerly Yellowbook 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, 2012 amounts from these partners totaled 43% of revenue and $13.3 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, 2012 from YP totaled $9.5 million.

Cash used in investing activities for the year ended December 31, 2012 of approximately $3.3 million was primarily attributable to purchases for property and equipment of $2.9 million, which were more than offset by proceeds from the sales of intangible assets of approximately $6.3 million. 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. The deferred acquisition payments were paid in cash in 2012 and are shown as financing activities. 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.

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, 2012 of approximately $44.7 million was primarily attributable to the cash payments of the 12-month and 18-month deferred acquisition payments related to the April 2011 Jingle acquisition totaling $33.9 million, which is net of certain working capital and other adjustment. The deferred acquisition payments excludes the interest accretion of $881,000 that is shown as an operating cash outflow. Other financing activities include the repurchase of 387,000 shares of Class B common stock for treasury stock totaling approximately $1.7 million and common stock dividend payments of $9.4 million, partially offset by net proceeds of approximately $71,000 from the sale of stock through employee stock options and employee stock plan purchases and $308,000 from excess tax benefit related to stock-based compensation. The dividend payments in 2012 include the December 2012 board of directors' declaration of quarterly dividends for the first, second, third, and fourth quarters of 2013 totaling $5.3 million, which was paid on December 31, 2012. 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.

The following table summarizes our contractual obligations as of December 31, 2012, 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	$11,924	$ 2,235	$ 4,513	$ 4,599	$ 577
Other contractual obligations	5,504	$ 2,836	2,221	447	—
Total contractual obligations (1), (2)	$17,428	$ 5,071	$ 6,734	$ 5,046	$ 577

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

(2) Our tax contingencies of approximately $250,000 are not included due to their uncertainty.

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

On November 1, 2012, we announced that our board of directors has authorized the company to pursue the separation of our business into two distinct publicly traded entities. The separation is expected to be a tax-free pro rata distribution in which the Company's existing shareholders would hold interests in: (1) Marchex, a mobile advertising company focused on calls, and (2) Archeo a domain and advertising marketplace. Completion of the proposed separation is subject to certain conditions, including final approval by the Company's board of directors, receipt of regulatory approvals, favorable tax rulings and/or opinions regarding the tax-free nature of the transaction to us and to our shareholder, further due diligence as appropriate, and the filing and effectiveness of appropriate filings with the Securities and Exchange Commission.

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, 2012, we had $30 million of availability under the credit agreement. We have not yet determined the impact of the proposed separation on our 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. Our board of directors authorized have increases in the share repurchase program to provide for the repurchase of up to 13 million shares in the aggregate (less shares previously purchased under the share repurchase program) of our Class B common stock. 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 years ended December 31, 2011 and 2012, approximately 883,000 and 387,000 shares of Class B common stock, respectively, were repurchased under the share purchase program.

The quarterly cash dividend was initiated at $0.02 per share of Class A common stock and Class B common stock. 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. For 2012, 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 and included two additional dividend payments on August 31 and December 31 to holders of record as of the close of business of August 16 and December 18, respectively. In August 2012, the Company's board of directors approved an increase to the Company's quarterly cash dividend on the Company's Class A and Class B common stock, subject to capital availability, from $0.02 per share to $0.035 per share. The increase in the dividend raised the annual dividend rate to $0.14 per share or $5.3 million. The Company paid the incremental $0.015 per share dividends totaling $566,000 on August 31, 2012 to Class A and Class B common stockholders of record as of the close of business on August 16, 2012. In December 2012, the Company's board of directors declared a quarterly dividend for the first, second, third and fourth quarters of 2013 totaling $0.14 per share on its Class A common stock and Class B common stock, which was paid on December 31, 2012 to the holders of record as of the close of business on December 18, 2012. The dividend paid totaled $5.3 million. Total dividends paid in 2012 were approximately $9.4 million.

Although we expect that the annual cash dividend, subject to capital availability, will be $0.14 per common share or approximately $5.3 million for the foreseeable future outside of the 2013 period for which dividends were paid at the end of 2012, there can be no assurance that we will continue to pay dividends at such a rate or at all. Upon completion of the proposed separation, the quarterly dividend payments are anticipated to be transitioned from Marchex to Archeo. There can be no assurances that Archeo will continue to pay dividends at such rate or at all.

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

Critical Accounting Policies

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

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

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

- Revenue;
- Goodwill and intangible assets;
- Stock-based compensation;
- Allowance for doubtful accounts and advertiser credits; and
- Provision for income taxes.

Revenue

We currently generate revenue through our operating businesses by delivering call and click-based advertising products that enable advertisers of all sizes to reach consumers across online, mobile and offline sources. Our primary source of revenue is performance-based advertising, which includes pay-for-call advertising, pay-per-click advertising, and cost-per-action services. For pay-for-call and pay-per-click advertising, revenue is recognized upon delivery of qualified and reported phone calls or click-throughs to our advertisers or advertising service providers' listing which occurs when an mobile, online or offline user makes a phone call or clicks on any of their advertisements after it has been placed by us or by our distribution partners. Each phone call or click-through on an advertisement listing represents a completed transaction. For cost-per-action services, revenue is recognized when 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. The provisions of the accounting standard for goodwill and other intangible assets allow us to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Events and circumstances considered in determining whether the carrying value of goodwill may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; 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.

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

No impairment of our other intangible assets have been identified in 2010, 2011 or 2012. 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 and 2012, we issued equity awards of stock options, restricted stock awards, and restricted stock units 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 6 (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. At the end of fourth quarter 2012, we recognized a partial valuation allowance of $16.4 million on our federal deferred tax assets. In assessing whether it is more likely than not that our deferred tax assets will be realized, factors considered included: historical taxable income, historical trends related to

advertiser usage rates, projected revenues and expenses, macroeconomic conditions, issues facing our industry, existing contracts, our ability to project future results and any appreciation of our other assets. During the fourth quarter of 2012, we incurred a $16.7 million goodwill impairment loss within our Archeo operating segment due in part to lower projected revenue growth rates and profitability levels within Archeo compared to historical results.

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. Consequently, based on projections of future taxable income and tax planning strategies, we expect to be able to recover a portion of these assets. Although realization is not assured, we believe it is more likely than not, based on our operating performance, existing deferred tax liabilities, projections of future taxable income and tax planning strategies, that our net deferred tax assets, excluding certain state and foreign net operating loss carryforwards, will be realized. 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.

As of December 31, 2012, we have net deferred tax assets of $28.5 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. We have recorded a valuation allowance of $16.4 million against our federal net deferred tax assets as of December 31, 2012 as we believe it is more likely than not that these benefits will not be realized. In addition, as of December 31, 2012, based upon both positive and negative evidence available, we have determined it is not more likely than not that certain deferred tax assets 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 $5.2 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, 2012, 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, 2011 and 2012, we had certain federal NOL carryforwards of $1.7 million which will begin to expire in 2019. The Tax Reform Act of 1986 limits the use of NOL and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. We believe that such a change has occurred, and that 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 in 2011, we acquired federal NOL carryforwards. 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, we have not recorded those amounts we believe it will not be able to utilize and has not included those NOL carryforwards in its deferred tax assets. Our NOL carryforwards that may be utilized is approximately $7.0 million. In 2011, the Company utilized approximately $2.6 million.

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.

Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2012-02, *Intangibles—Goodwill and Other (Topic 350)—Testing Indefinite-Lived Intangible Assets for Impairment* (ASU 2012-02), to allow entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. ASU 2012-02 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed quantitative impairment test by comparing the fair value of the indefinite-lived intangible asset with its carrying value. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASU 2012-02 on the 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, 2011 and 2012, 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, 2011 and 2012, 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, 2012. 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, 2011 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, 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, 2012, 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, 2013 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Seattle, Washington
March 12, 2013

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, 2012, 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, 2012, 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, 2011 and 2012, 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, 2012, and our report dated March 12, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Seattle, Washington
March 12, 2013

MARCHEX, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except per share amounts)

	As of December 31, 2011	As of December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 37,443	$ 15,930
Accounts receivable, net	30,635	25,988
Prepaid expenses and other current assets	3,614	2,667
Refundable taxes	193	264
Deferred tax assets	2,753	830
Total current assets	74,638	45,679
Property and equipment, net	6,187	6,005
Deferred tax assets	46,310	27,677
Intangible and other assets, net	2,191	611
Goodwill	82,644	65,815
Intangible assets from acquisitions, net	8,088	3,360
Total assets	$ 220,058	$ 149,147
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 12,896	$ 12,378
Accrued expenses and other current liabilities	8,430	9,609
Deferred acquisition payments	35,214	—
Deferred revenue	1,930	2,009
Total current liabilities	58,470	23,996
Other non-current liabilities	2,580	2,216
Total liabilities	61,050	26,212
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.01 par value. Authorized 137,500 shares;		
Class A: 12,500 shares authorized; 9,894 and 9,632 shares issued and outstanding, respectively, at December 31, 2011; 9,832 and 9,570 shares issued and outstanding, respectively, at December 31, 2012	99	98
Class B: 125,000 shares authorized; 28,074 and 27,917 shares issued and outstanding, respectively, at December 31, 2011, including 3,995 of restricted stock at December 31, 2011; and 28,380 and 27,978 shares issued and outstanding, respectively, at December 31, 2012, including 2,433 restricted stock at December 31, 2012	281	284
Treasury stock: 157 and 402 shares of Class B stock at December 31, 2011 and 2012, respectively	(1,067)	(13)
Additional paid-in capital	297,465	295,532
Accumulated deficit	(137,770)	(172,966)
Total stockholders' equity	159,008	122,935
Total liabilities and stockholders' equity	$ 220,058	$ 149,147

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,		
	2010	2011	2012
Revenue	$ 97,566	$146,726	$138,305
Expenses:			
Service costs [1]	57,557	81,835	80,594
Sales and marketing [1]	13,530	15,434	13,671
Product development [1]	16,804	22,794	23,395
General and administrative [1]	17,507	22,709	22,911
Amortization of intangible assets from acquisitions [2]	2,729	5,455	4,728
Acquisition and separation related costs	—	1,890	753
Total operating expenses	108,127	150,117	146,052
Impairment of goodwill	—	—	(16,739)
Gain on sales and disposals of intangible assets, net	6,772	9,421	6,296
Income (loss) from operations	(3,789)	6,030	(18,190)
Other income (expense):			
Interest income	76	141	14
Interest and line of credit expense	(107)	(604)	(438)
Other	160	5	(25)
Total other income (expense)	129	(458)	(449)
Income (loss) before provision for income taxes	(3,660)	5,572	(18,639)
Income tax expense (benefit)	(617)	2,613	16,557
Net income (loss)	(3,043)	2,959	(35,196)
Dividends paid to participating securities	(199)	(259)	(657)
Net income (loss) applicable to common stockholders	$ (3,242)	$ 2,700	$ (35,853)
Basic and diluted net income (loss) per share applicable to common stockholders			
Class A	$ (0.10)	$ 0.08	$ (1.06)
Class B	$ (0.10)	$ 0.08	$ (1.05)
Dividends paid per share	$ 0.08	$ 0.08	$ 0.25
Shares used to calculate basic net income (loss) per share applicable to common stockholders			
Class A	10,661	9,928	9,574
Class B	21,993	23,358	24,412
Shares used to calculate diluted net income (loss) per share applicable to common stockholders			
Class A	10,661	9,928	9,574
Class B	32,654	35,318	33,986

[1] Excludes amortization of intangible assets from acquisitions.

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

Service costs	$ 2,729	$ 4,515	$ 3,484
Sales and marketing	—	897	1,228
General and administrative	—	43	16
Total	$ 2,729	$ 5,455	$ 4,728

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, 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 shortfall 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
Issuance of common stock upon exercise of stock options	—	—	6	—	—	—	27	—	27
Income tax shortfall of option exercises and restricted stock vesting, net	—	—	—	—	—	—	(4,006)	—	(4,006)
Issuance of common stock under employee stock purchase plan	—	—	10	—	—	—	36	—	36
Issuance of restricted stock to employees	—	—	1,484	15	—	—	—	—	15
Tax withholding related to restricted stock awards	—	—	(7)	—	(384)	(4)	(1,607)	—	(1,611)
Repurchase of Class B common stock	—	—	—	—	(387)	(1,651)	—	—	(1,651)
Conversion of Class A common stock to Class B common stock	(62)	(1)	62	1	—	—	—	—	—
Repurchase of unvested restricted stock	—	—	—	—	(723)	(7)	—	—	(7)
Stock compensation from options and restricted stock, net of estimated forfeitures	—	—	—	—	—	—	15,696	—	15,696
Retirement of treasury stock	—	—	(1,249)	(13)	1,249	2,716	(2,703)	—	—
Net loss	—	—	—	—	—	—	—	(35,196)	(35,196)
Common stock cash dividends	—	—	—	—	—	—	(9,376)	—	(9,376)
Balances at December 31, 2012	9,570	$ 98	28,380	$ 284	(402)	$ (13)	$ 295,532	$ (172,966)	$ 122,935

See accompanying notes to consolidated financial statements.

MARCHEX, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(in thousands)

	Years ended December 31,		
	2010	2011	2012
Cash flows from operating activities:			
Net income (loss)	$ (3,043)	$ 2,959	$ (35,196)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization and depreciation	7,694	9,473	8,457
Accretion of interest expense	—	519	362
Acquisition related costs	—	372	(132)
Leasehold improvement incentive	779	204	—
Impairment of goodwill	—	—	16,739
Gain on sales of fixed assets, net	(2)	(4)	—
Gain on sales and disposals of intangible assets, net	(6,772)	(9,421)	(6,296)
Allowance for doubtful accounts and advertiser credits	1,348	1,203	1,780
Stock-based compensation	10,832	15,143	15,696
Deferred income taxes	2,004	1,895	16,586
Excess tax benefit related to stock-based compensation	(36)	(1,032)	(308)
Change in certain assets and liabilities, net of acquisition:			
Accounts receivable, net	(6,778)	(6,965)	2,948
Refundable taxes, net	1,631	4,006	(100)
Prepaid expenses and other current assets	(988)	(1,618)	1,884
Accounts payable	2,486	(1,542)	(550)
Accrued expenses and other current liabilities	(320)	1,195	(1,704)
Deferred revenue	(307)	210	79
Other non-current liabilities	860	185	(344)
Net cash provided by operating activities	9,388	16,782	19,901
Cash flows from investing activities:			
Purchases of property and equipment	(3,441)	(3,971)	(2,879)
Cash paid for acquisitions, net of cash acquired	—	(15,801)	—
Proceeds from sales of property and equipment	1	9	—
Proceeds from sales of intangible assets	6,779	9,474	6,319
Purchases of intangibles and changes in other non-current assets	(116)	(103)	(120)
Net cash provided by (used in) investing activities	3,223	(10,392)	3,320
Cash flows from financing activities:			
Capital lease obligation principal payments	(6)	—	—
Excess tax benefit related to stock options	36	1,032	308
Tax withholding related to restricted stock awards	—	—	(226)
Repurchase of Class B common stock for treasury stock	(6,534)	(6,159)	(1,651)
Common stock dividends payments	(2,816)	(2,938)	(9,376)
Proceeds from exercises of stock options	372	1,754	27
Proceeds from issuance of restricted stock to employees, net of repurchases of forfeited unvested restricted stock	10	10	8
Deferred acquisition payments	—	—	(33,860)
Proceeds from employee stock purchase plan	17	26	36
Net cash used in financing activities	(8,921)	(6,275)	(44,734)
Net increase (decrease) in cash and cash equivalents	3,690	115	(21,513)
Cash and cash equivalents at beginning of period	33,638	37,328	37,443
Cash and cash equivalents at end of period	$37,328	$ 37,443	$ 15,930
Supplemental disclosure of cash flow information:			
Cash received during the period for income taxes, net of payments	(4,336)	(2,994)	117
Cash paid during the period for interest accretion on deferred payment	—	—	881
Cash paid (received) during the period for interest, net	77	(63)	(62)
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	835
Property and equipment acquired in accounts payable and accrued expenses	54	121	239
Tax withholding related to restricted stock awards in accrued expenses	—	—	1,384
Leasehold improvement incentive recorded in other current assets and other non-current liabilities	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 mobile performance advertising company that delivers consumer calls to businesses and analyzes those calls. The Company also provides performance-based online advertising that connects advertisers with consumers across its proprietary network of owned web sites as well as third party web sites.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. 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 periods to conform to the current period 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 9 for further discussion.

Proposed Separation

On November 1, 2012, the Company announced that its board of directors has authorized the Company to pursue the separation of its business into two distinct publicly traded entities. The separation is expected to be a tax-free pro rata distribution in which the Company's existing shareholders would hold interests in: (1) Marchex, a mobile advertising company focused on calls, and (2) Archeo, Inc. ("Archeo"), a domain and advertising marketplace. Completion of the proposed separation is subject to certain conditions, including final approval by the Company's board of directors, receipt of regulatory approvals, favorable tax rulings and/or opinions regarding the tax-free nature of the transaction to the Company and to its shareholders, further due diligence as appropriate, and the filing and effectiveness of appropriate filings with the Securities and Exchange Commission.

(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, 2011 and 2012: 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.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

(d) Accounts Receivable

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

Allowance for Doubtful Accounts

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

The allowance for doubtful 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, 2010	$ 467	$ 343	$ 353	$ 457
December 31, 2011	457	453	117	793
December 31, 2012	793	594	810	577

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, 2010	$ 464	$ 1,005	$ 830	$ 639
December 31, 2011	639	690	856	473
December 31, 2012	473	1,186	1,074	585

(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.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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

(g) Impairment or Disposal of Long-Lived Assets

The Company reviews its long-lived assets for impairment in accordance with FASB ASC 360 whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds fair value. Assets to be disposed of would be separately presented on the balance sheet and reported at the lower of their carrying amount or fair value less costs to sell, and no longer depreciated.

(h) Revenue Recognition

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

	Years ended December 31,		
	2010	2011	2012
Partner and Other Revenue Sources	$71,537	$126,210	$127,415
Proprietary Web site Traffic Sources	26,029	20,516	10,890
Total Revenue	$97,566	$146,726	$138,305

The Company's partner network revenues are primarily generated using third party distribution networks to deliver advertisers' listings. The distribution network includes mobile and online search engines and applications, directories, destination sites, shopping engines, third party Internet domains or web sites, other targeted Web-based content, mobile carriers and other offline sources. The Company generates revenue upon delivery of qualified and reported phone calls or click-throughs to our advertisers or to advertising services providers' listings. The Company 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, and campaign management 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 digital call advertising, pay-per-click services, and cost-per-action services. These primary sources amounted to greater than 79% of revenue for the years ended December 31, 2010, 2011 and 2012. The secondary sources of revenue are the Local Leads platform which enables partner resellers to sell call adverting and/or search marketing products and campaign management services. These secondary sources amounted to less than 21% of revenue for the years ended December 31, 2010, 2011 and 2012. The Company has no barter transactions.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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 Local Leads platform 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.

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

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

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

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

(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. The amounts for online and related outside marketing activities were approximately $3.8 million, $3.3 million and $1.9 million for the years ended December 31, 2010, 2011 and 2012, 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 measures stock-based compensation cost at the grant date based on the fair value of the award and recognize it as expense, net of estimated forfeitures, over the vesting or service period, as applicable, of the stock award using the straight-line method.

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

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

There were no distribution partners representing more than 10% of consolidated revenue for the years ended December 31, 2010, 2011 and 2012.

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

	Years ended December 31,		
	2010	2011	2012
Advertiser A	23%	31%	27%

Advertiser A is also a distribution partner.

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

	At December 31,	
	2011	2012
Advertiser A	37%	36%
Advertiser B	*	11%

* Less than 10% of accounts receivable.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

(q) Net Income (Loss) Per Share

The Company computes net income (loss) per share of Class A and Class B common stock using the two class method. Under the provisions of the two class method, basic net income (loss) per share is computed by dividing net income (loss) applicable to common stockholders by the weighted average number of common shares outstanding during the year. Diluted net income (loss) per share is computed by dividing net income (loss) applicable to common 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 paid with respect to the shares of Class A common stock and Class B common stock and that both classes of common stock have identical dividend rights and would share equally in the Company's net assets in the event of liquidation, the Company has allocated undistributed earnings (losses) on a proportionate basis. Additionally, the Company has paid dividends equally to both classes of common stock and the unvested restricted shares since it initiated a quarterly cash dividend in November 2006.

Instruments granted in unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities prior to vesting. As such, the Company's restricted stock awards are considered participating securities for purposes of calculating earnings per share. Under the two class method, dividends paid on unvested restricted stock are allocated to these participating securities and therefore impacts the calculation of amounts allocated to common stock.

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

	Twelve months ended December 31,					
	2010		2011		2012	
	Class A	Class B	Class A	Class B	Class A	Class B
Numerator:						
Net income (loss)	$ (1,058)	$ (1,985)	$ 799	$ 2,160	$ (10,164)	$ (25,032)
Dividends paid to participating securities	—	(199)	—	(259)	—	(657)
Net income (loss) applicable to common stockholders	$ (1,058)	$ (2,184)	$ 799	$ 1,901	$ (10,164)	$ (25,689)
Denominator:						
Weighted average number of shares outstanding used to calculate basic net income (loss) per share	10,661	21,993	9,928	23,358	9,574	24,412
Basic net income (loss) per share applicable to common stockholders	$ (0.10)	$ (0.10)	$ 0.08	$ 0.08	$ (1.06)	$ (1.05)

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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,					
	2010		2011		2012	
	Class A	Class B	Class A	Class B	Class A	Class B
Numerator:						
Net income (loss)	$ (1,058)	$ (1,985)	$ 799	$ 2,160	$ (10,164)	$ (25,032)
Dividends paid to participating securities	—	(199)	—	(259)	—	(657)
Reallocation of net income (loss) for Class A shares as a result of conversion of Class A to Class B shares	—	(1,058)	—	799	—	(10,164)
Net income (loss) applicable to common stockholders	$ (1,058)	$ (3,242)	$ 799	$ 2,700	$ (10,164)	$ (35,853)
Denominator:						
Weighted average number of shares outstanding used to calculate basic net income (loss) per share	10,661	21,993	9,928	23,358	9,574	24,412
Weighted average stock options and common shares subject to repurchase or cancellation	—	—	—	2,032	—	—
Conversion of Class A to Class B common shares outstanding	—	10,661	—	9,928	—	9,574
Weighted average number of shares outstanding used to calculate diluted net income (loss) per share	10,661	32,654	9,928	35,318	9,574	33,986
Diluted net income (loss) per share applicable to common stockholders	$ (0.10)	$ (0.10)	$ 0.08	$ 0.08	$ (1.06)	$ (1.05)

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, 2010, 2011 and 2012, outstanding options to acquire 6,411, 4,792, and 7,029 shares, respectively, of Class B common stock.
- For the years ended December 31, 2010, 2011, and 2012, 3,214, 134 and 2,433 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, 2011 and 2012, 153 and 131 restricted stock units with vesting based on meeting certain service and market conditions, respectively.
- 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 9 for further discussion.

(r) 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.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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.

(s) 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. Both deferred acquisition payments were paid in cash in April 2012 and October 2012.

(t) Recently Issued Accounting Standards

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2012-02, *Intangibles—Goodwill and Other (Topic 350)—Testing Indefinite-Lived Intangible Assets for Impairment* (ASU 2012-02), to allow entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. ASU 2012-02 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed quantitative impairment test by comparing the fair value of the indefinite-lived intangible asset with its carrying value. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASU 2012-02 on the consolidated financial statements.

(2) Property and Equipment

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

	Years ended December 31,	
	2011 (1)	2012 (1)
Computer and other related equipment	$ 13,671	$ 15,842
Purchased and internally developed software	6,667	7,452
Furniture and fixtures	1,229	1,242
Leasehold improvements	1,805	1,809
	$ 23,372	$ 26,345
Less: accumulated depreciation and amortization	(17,185)	(20,340)
Property and equipment, net	$ 6,187	$ 6,005

(1) Includes the original cost and accumulated depreciation of fully-depreciated fixed assets which were $13.3 million and $15.8 million at December 31, 2011 and 2012, respectively.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

The Company has capitalized certain costs of internally developed software for internal use. The estimated useful life of costs capitalized is evaluated for each specific project. Amortization begins in the period in which the software is ready for its intended use. The Company has not capitalized any internally developed software costs during 2010, 2011 and 2012.

Depreciation and amortization expense incurred by the Company was approximately $3.0 million, $2.8 million and $3.2 million for the years ended December 31, 2010, 2011 and 2012, 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, 2011 and 2012, 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 for 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
2013	$ 2,235	$ 2,836	$ 5,071
2014	2,288	1,582	3,870
2015	2,225	639	2,864
2016	2,266	447	2,713
2017	2,333	—	2,333
2018 and after	577	—	577
Total minimum payments	$11,924	$ 5,504	$17,428

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.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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, $2.1 million and $2.0 million for the years ended December 31, 2010, 2011 and 2012, respectively.

(5) Income Taxes

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

	Years ended December 31,		
	2010	2011	2012
United States	$(3,518)	$5,819	$(18,643)
Foreign	(142)	(247)	4
Income (loss) before provision for income taxes	$(3,660)	$5,572	$(18,639)

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

	Years ended December 31,		
	2010	2011	2012
Current provision (benefit)			
Federal	$(2,168)	$ (249)	$ (94)
State	46	16	63
Foreign	—	—	2
Deferred provision (benefit)			
Federal	2,004	1,895	4,155
State	—	—	—
Tax expense (benefit) of equity adjustment for stock option exercises and restricted stock vesting	(605)	824	(4,227)
Valuation allowance	—	—	16,400
Other	106	127	258
Total income tax expense (benefit)	$ (617)	$2,613	$16,557

Income tax expense (benefit) differed from the amounts computed by applying the U.S. federal income tax rates of 34% for 2010, 2011, and 2012, respectively, to income (loss) before provision for income taxes as a result of the following (in thousands):

	Years ended December 31,		
	2010	2011	2012
Income tax expense (benefit) at U.S. statutory rate	$(1,244)	$1,895	$ (6,337)
State taxes, net of valuation allowance	30	45	42
Non-deductible stock compensation	757	645	599
Non-deductible goodwill impairment	—	—	3,833
Effect of rate change on deferred items	—	—	1,289
Valuation allowance	—	—	16,400
Effect of non-U.S. operations, net of valuation allowance	48	84	—
Research tax credits	(240)	(722)	(242)
Other non-deductible expenses	32	666	973
Total income tax expense (benefit)	$ (617)	$2,613	$16,557

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 (in thousands):

	As of December 31,	
	2011	2012
Deferred tax assets:		
Accrued liabilities not currently deductible	$ 1,842	$ 1,685
Intangible assets-excess of financial statement over tax amortization	16,461	15,333
Goodwill recognized on financial statements in excess of tax amortization	21,282	18,976
Stock-based compensation	7,809	4,834
Federal net operating losses and AMT credit carryforwards	1,480	3,519
State and city net operating loss carryforwards	4,481	5,074
Research & experimental tax credit carryforwards	1,302	1,478
Other	285	329
Gross deferred tax assets	54,942	51,228
Valuation allowance	(4,579)	(21,575)
Net deferred tax assets	50,363	29,653
Deferred tax liabilities:		
Excess of tax over financial statement depreciation	1,300	1,146
Total deferred tax liabilities	1,300	1,146
Net deferred tax assets	$49,063	$ 28,507

The Company recorded approximately $2.0 million in federal NOL carryforwards in 2012 which will expire in 2032. The Company also has research and development credits of $1.5 million available to reduce income taxes, if any, which will expire in 2029 through 2031, if not utilized. The 2012 Taxpayer Relief Act was signed into law on January 2, 2013 which extends the research tax credit for two years to December 31, 2013 and is retroactive to January 1, 2012. As a result of the retroactive extension, the Company expects to recognize an estimated tax benefit of approximately $413,000 for qualifying amounts incurred in 2012. The tax benefit for the 2012 period will be recognized in the period the law was enacted, which is the first quarter of 2013.

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

At December 31, 2011 and 2012, the Company recorded a valuation allowance of $4.6 million and $21.6 million, respectively, against its federal, state, city and foreign net deferred tax assets, as it believes it is more likely than not that these benefits will not be realized. The change in the valuation allowance in 2012 was approximately $17.0 million.

The Company regularly reviews deferred tax assets to assess whether it is more likely than not that the deferred tax assets will be realized and, if necessary, establishes a valuation allowance for portions of such assets to reduce the carrying value. At the end of the fourth quarter of 2012, the Company recognized a partial valuation allowance of $16.4 million on its federal deferred tax assets. In assessing whether it is more likely than not that the Company's deferred tax assets will be realized, factors considered included: historical taxable income, historical trends related to advertiser usage rates, projected revenues and expenses, macroeconomic conditions, issues facing our industry, existing contracts, our ability to project future results and any appreciation of our

other assets. During the fourth quarter of 2012, the Company incurred a $16.7 million goodwill impairment loss within its Archeo operating segment due in part to lower projected revenue growth rates and profitability levels within Archeo compared to historical results.

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. Consequently, based on projections of future taxable income and tax planning strategies, the Company expects to be able to recover a portion of these assets. 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. 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, 2011 and 2012, the Company has certain tax effected state, city, and foreign net operating loss (NOL) carryforwards of approximately $4.6 million and $5.2 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, 2011 and 2012.

In connection with the Jingle acquisition in 2011, the Company acquired federal NOL carryforwards. 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 recorded approximately $7.0 million of NOL carryforwards, which will begin to expire in 2026. The Company utilized $2.6 million in 2011.

In addition, at December 31, 2011 and 2012, the Company had certain federal net operating loss carryforwards of approximately $1.7 million which begin to expire in 2019. The Tax Reform Act of 1986 limits the use of NOL and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. The Company believes that such a change has occurred related to these specific NOL carryforwards, and that the utilization of the approximately $1.7 million in carryforwards is limited such that substantially all of these NOL carryforwards will never be utilized. Accordingly, the Company has not included these federal NOL carryforwards in its deferred tax assets.

During the years ended December 31, 2010, 2011 and 2012, the Company recognized excess tax benefits (shortfall) on stock option exercises, restricted stock vesting, and dividends paid on unvested restricted stock of approximately ($537,000), $913,000, and ($4.0) million, respectively, which were recorded to additional paid in capital.

The tax benefit realized for the tax deductions from option exercises and restricted stock vesting totaled $1.2 million, $2.5 million, and $0, respectively, for the years ended December 31, 2010, 2011, and 2012.

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.

The following table summarizes the activity related to the Company's tax contingencies from January 1, 2010 to December 31, 2012 (in thousands):

Gross tax contingencies—January 1, 2010	$ 463
Gross increases to tax positions associated with prior periods	$ —
Gross increases to current period tax positions	$ 83
Gross decreases to tax positions associated with prior periods	$ —
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
Gross increases to tax positions associated with prior periods	$ 28
Gross increases to current period tax positions	$ —
Gross decreases to tax positions associated with prior periods	$ (83)
Settlements	$ —
Lapse of statute of limitations	$ —
Gross tax contingencies—December 31, 2012	$ 250

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

(6) Stockholders' Equity

(a) Common Stock and Authorized Capital

The authorized capital stock of the Company 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.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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, 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. During the year ended December 31, 2012, the Company repurchased approximately 387,000 shares of Class B common stock for $1.7 million under this repurchase program.

During the years ended December 31, 2011 and 2012, the Company's board of directors authorized the retirement of 1.0 million and 1.2 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 2010, 2011 and 2012, 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 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
January 2012	$ 0.02	February 3, 2012	$ 751	February 15, 2012
April 2012	$ 0.02	May 4, 2012	$ 743	May 15, 2012
July 2012	$ 0.02	August 3, 2012	$ 755	August 15, 2012
August 2012	$ 0.015	August 16, 2012	$ 566	August 31, 2012
October 2012	$ 0.035	November 2, 2012	$ 1,300	November 15, 2012

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

In August 2012, the Company's board of directors approved an increase to the Company's quarterly cash dividend on the Company's Class A and Class B common stock, subject to capital availability, from $0.02 per share to $0.035 per share. The increase in the dividend raises the annual dividend rate to $0.14 per share or $5.3 million. The Company paid the incremental $0.015 per share dividends on August 31, 2012 to Class A and Class B common stockholders of record as of the close of business on August 16, 2012. The Company paid approximately $566,000 for these incremental dividends.

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

(b) Stock Option Plan

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

In April 2012, the Company's Board of Directors approved the establishment of the Marchex 2012 Stock Incentive Plan (the "2012 Plan"). After December 31, 2012, no further awards will be made under the 2003 Plan. The 2012 Plan authorizes up to 3,500,000 shares of Class B common stock that may be issued with respect to awards granted under the Plan, and provides that the total number of shares of Class B common stock for which options designated as incentive stock options may be granted shall not exceed 3,500,000 shares. Annual increases to each of these share limits are to be added on the first day of each fiscal year beginning on January 1, 2013 equal to 5% of the outstanding common stock (including for this purpose any shares of common stock issuable upon conversion of any outstanding capital stock of the Company) or in the case of incentive stock options, if lesser of 2,000,000 shares of Class B common stock or such number as determined by the Company's Board of Directors. As a result of this provision, the authorized number of shares available under the 2012 Plan was increased by 1,877,388 to 5,377,388. 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 2010, 2011 and 2012.

The Company measures stock-based compensation cost at the grant date based on the fair value of the award and recognize it as expense, net of estimated forfeitures, over the vesting or service period, as applicable, of the stock award using the straight-line method.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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,		
	2010	2011	2012
Service costs	$ 805	$ 1,291	$ 1,904
Sales and marketing	799	1,505	2,039
Product development	1,015	1,416	1,051
General and administrative	8,213	10,931	10,702
Total stock-based compensation	$10,832	$15,143	$15,696
Income tax benefit related to stock-based compensation included in net income (loss)	$ 3,012	$ 5,048	$ 4,857

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.

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, 2010, 2011 and 2012, 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,		
	2010	2011	2012
Expected life (in years)	3.5 – 6.25	4.0 – 6.25	4.0 – 6.25
Risk-free interest rate	1.00% to 2.08%	0.60% to 1.77%	0.47% to 0.78%
Expected volatility	66% to 68%	68% to 71%	65% to 70%
Weighted average expected volatility	67%	70%	67%
Expected dividend yield	0.91% to 1.10%	0.91%	1.33% to 3.11%

During 2010, 2011, and 2012, the Company issued equity awards which include stock options, restricted stock awards, 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 10 year bond rate as of the valuation date based on the contractual life of the option.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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	2012
Expected life (in years)	1.2 – 5.9	1.97 – 4.54	1.50 – 5.74
Risk-free interest rate	3.36% to 3.56%	1.94%	1.81%
Expected volatility	61%	57%	60%
Weighted average expected volatility	61%	57%	60%
Expected dividend yield	0.91% to 1.63%	1.26%	3.17%

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	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
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 [1]	(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	
Increase to option pool January 1, 2012	1,877,411				
Options granted [2]	(915,500)	915,500	4.13		
Restricted stock granted	(1,343,250)	—			
Restricted stock forfeited	723,232	—			
Options exercised	—	(6,556)	4.13		
Options expired	407,505	(407,505)	11.04		
Options forfeited	675,863	(675,863)	7.04		
Balance at December 31, 2012	2,379,148	7,029,360	$ 7.67	6.28	$ 506
Options exercisable at December 31, 2012 [3]		4,650,934	$ 8.52	5.08	$ 339

(1) Includes 880,000 stock options which vest over 2 years.
(2) Includes 765,000, 313,400, and 202,000 stock options issued in 2010, 2011 and 2012, respectively, which have vesting based on a combination of certain service and market conditions.
(3) Includes 618,000 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, 2012:

	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 – $ 4.06	715,589	5.76	$ 3.40	341,610	$ 3.12
$ 4.10 – $ 4.41	482,544	9.72	4.38	18,610	4.28
$ 4.44 – $ 4.63	738,375	6.67	4.62	718,149	4.63
$ 4.64 – $ 4.89	806,051	6.54	4.85	657,986	4.86
$ 4.90 – $ 6.10	368,778	7.02	5.41	234,677	5.43
$ 6.19 – $ 6.35	846,100	8.82	6.35	229,025	6.35
$ 6.38 – $ 8.67	477,175	4.43	7.11	334,715	6.88
$ 8.68 – $ 8.77	756,850	7.41	8.77	432,949	8.77
$ 8.81 – $11.02	873,062	5.12	10.27	718,377	10.45
$11.27 – $24.54	964,836	3.00	16.21	964,836	16.21
	7,029,360	6.28	$ 7.67	4,650,934	$ 8.52

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

	Years ended December 31,		
	2010	2011	2012
Weighted average fair value of options granted	$ 6.62	$ 3.54	$ 1.78
Intrinsic value of options exercised (in thousands)	$ 293	$1,885	$ 7
Total grant date fair value of restricted stock vested (in thousands)	$5,023	$4,056	$22,015

At December 31, 2012, there was $6.6 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 2.5 years.

During the years ended December 31, 2010, 2011 and 2012 gross proceeds recognized from the exercise of stock options was approximately $372,000, $1.8 million and $27,000, 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, 2010, 2011 and 2012, of approximately ($537,000), $913,000 and ($4.0) million, 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, 2010, 2011 and 2012 is summarized as follows:

	Shares/ Units	Weighted Average Grant Date Fair Value
Unvested at December 31, 2009	2,541,802	$ 8.99
Granted	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
Granted [2]	1,343,250	3.79
Vested	(2,323,431)	9.47
Forfeited	(745,332)	7.08
Unvested at December 31, 2012	2,563,511	$ 5.12

(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.

(2) Includes 202,000 restricted stock awards issued in 2012, which vest 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.

As of December 31, 2012, there was $13.3 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 2.6 years.

In the second quarter of 2012, vesting of approximately 195,000 restricted shares were fully accelerated in connection with a separation agreement. In the fourth quarter of 2012, 1,050,000 restricted shares that would otherwise have vested on January 1, 2013 were vested on December 31, 2012.

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

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, 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. During the year ended December 31, 2012, 9,817 shares were purchased at prices ranging from $3.43 to $4.24 per share. At December 31, 2012, approximately 214,000 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 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. In 2012, cash contributions were made in the amount of $67,000.

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%. In April 2012 and October 2012, the Company paid approximately $16.9 million and $17.9 million in cash, net of certain working capital and other adjustments, on the first and 18th month anniversary of closing, respectively.
- 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 in 2011, 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. In March 2012, the Company arranged for the future sublease of the Jingle office space and revised its original estimates which resulted in a $132,000 benefit recorded in acquisition and separation related costs in the consolidated statements of operations. 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 recorded approximately $7.0 million of NOL carryforwards. In 2011, the Company utilized approximately $2.6 million.

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

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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

Cash acquired	$ 761
Accounts receivable	4,740
Deferred tax assets	2,538
Other current assets	62
Property and equipment	206
Other non-current assets	148
Intangible assets	11,966
Goodwill	47,290
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 results of operations for Jingle for the year ended December 31, 2012 are incorporated in the results of operations for the Company for the year ended December 31, 2012. 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, 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

	As of December 31, 2012		
	Gross Carrying Amount [1]	Accumulated Amortization [1]	Net
Advertiser relationship	$ 3,070	$ (2,125)	$ 945
Distribution partner relationship	4,830	(2,787)	2,043
Acquired technology	2,760	(2,388)	372
	$ 10,660	$ (7,300)	$3,360

(1) Excludes the original cost and accumulated amortization of fully-amortized intangible assets which were $42.6 million and $82.1 million at December 31, 2011 and 2012, 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, 2010, 2011 and 2012, was approximately $2.7 million, $5.5 million and $4.7 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: $2.9 million in 2013, $433,000 in 2014, and $0 thereafter.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

(11) Goodwill

Changes in the carrying amount of goodwill for the years ended December 31, 2011 and 2012 are as follows (in thousands):

	Call Driven	Archeo	Total
Balance as of December 31, 2010	$ —	$ —	$ 35,337
Jingle acquisition	—	—	47,344
Other	—	—	(37)
Balance as of December 31, 2011	—	—	82,644
Jingle acquisition	—	—	(53)
Other	—	—	(37)
Goodwill allocation between segments	63,305	19,249	—
Impairment	—	(16,739)	(16,739)
Balance as of December 31, 2012	$63,305	$ 2,510	$ 65,815

In 2012, the decrease in goodwill was primarily related to the impairment loss recognized during the fourth quarter within the Archeo segment as discussed further below. During the fourth quarter of 2012, the Company announced its intention to pursue a spin-off of Archeo and the corresponding organizational changes resulted in a change to the Company's reportable operating segments and reporting units for purposes of assessing potential impairment of goodwill. The Company's reporting units are consistent with its reportable operating segments identified in Note 13. Prior to the fourth quarter of 2012, the Company operated in a single operating segment consisting of a single reporting unit. In connection with the change in reportable operating segments and reporting units, the Company allocated approximately $19.2 million and $63.3 million of goodwill to its Archeo and Call-Driven segments, respectively.

Goodwill at December 31, 2011 is net of the 2008 impairment charge of $169.3 million. Goodwill at December 31, 2012 is net of the accumulated impairment charges from 2008 and 2012 of $186.0 million.

The Company reviews goodwill for impairment annually on November 30 and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. The Company initiated its annual goodwill impairment analysis in the fourth quarter of 2012 and concluded that the fair value was below the carrying value for the Archeo reporting unit and recognized an impairment loss of $16.7 million. The estimated fair value of the Archeo reporting unit was based on estimates of future operating results, discounted cash flows and other market-based factors. The goodwill impairment recorded within the Archeo reporting unit resulted from the newly associated amounts of goodwill allocated upon the commencement of the reporting unit designation in the fourth quarter, and the operating results including lower projected revenue growth rates and profitability levels compared to historical results. The lower projected operating results reflect changes in assumptions related to organic revenue growth rates, market trends, business mix, cost structure, and other expectations about the anticipated short-term and long-term operating results of the Archeo reporting unit.

The testing of goodwill and other intangible assets for impairment requires the Company to make significant estimates about its future performance and cash flows, as well as other assumptions. These estimates can be affected by numerous factors, including changes in economic, industry or market conditions, changes in business operations, changes in competition or changes in the share price of the Company's common stock and market capitalization. Significant and sustained declines in the Company's stock price and market capitalization, a significant decline in its expected future cash flows or a significant adverse change in the Company's business

climate, among other factors, could result in the need to perform an impairment analysis in future interim periods. The Company cannot accurately predict the amount and timing of any future impairment of goodwill or other intangible assets. Should the value of goodwill or other intangible assets become impaired, the Company would record an impairment charge, which could have an adverse effect on its financial condition and results of operations.

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,	
	2011	2012
Internet domain names	$ 15,256	$ 14,910
Less accumulated amortization	(14,535)	(14,590)
Internet domain names, net	721	320
Other assets:		
Registration fees, net	1,142	9
Other	328	282
Total intangibles and other assets, net	$ 2,191	$ 611

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, 2012 to renew or extend the term for domain names was $2.4 million. The weighted average renewal period for registration fees as of December 31, 2012 was approximately 1.0 year.

Amortization expense for Internet domain names for the years ended December 31, 2010, 2011 and 2012, was approximately $1.6 million, $1.2 million and $520,000, respectively.

Based upon the current amount of domains subject to amortization, the estimated expense for the next five years is as follows: $280,000 in 2013, $40,000 in 2014 and $0 thereafter.

(13) 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. During the fourth quarter of 2012, the Company changed its internal reporting available to its chief operating decision maker for evaluating segment

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

performance and allocating resources due to its intention to spin off Archeo and revised segment disclosures accordingly. The new reporting disaggregates the Company's operations into the Call-driven and Archeo segments, and represented a change in the Company's reportable operating segments. Prior to the fourth quarter of 2012, the Company operated in a single operating segment.

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

A measure of segment assets is not currently provided to the Company's chief operating decision maker and has therefore not been disclosed. The change in the Company's operating segments during the fourth quarter of 2012 also resulted in a change in the Company's reporting units for purposes of assessment potential impairment of goodwill. Goodwill was reallocated to the Company's two reporting units based on their respective fair values and the Company recognized an impairment of goodwill of $16.7 million related to its Archeo segment. The carrying amount of goodwill by operating segment at December 31, 2012 was approximately $63.3 million and $2.5 million for Call-driven and Archeo, respectively.

Selected segment information (in thousands):

	Year ended December 31, 2012		
	Call-driven	Archeo	Total
Revenue	$111,886	$26,419	$138,305
Expenses:			
Service costs	64,644	14,046	78,690
Sales and marketing	9,172	2,460	11,632
Product development	19,861	2,484	22,345
General and administrative	10,617	1,591	12,208
Gain on sales of intangible assets	—	6,296	6,296
Segment profit	$ 7,592	$12,134	$ 19,726
Less reconciling items:			
Stock based compensation			15,696
Impairment of goodwill			16,739
Amortization of intangible assets from acquisitions			4,728
Acquisition and separation related costs			753
Interest expense and other, net			449
Loss before provision for income taxes			$ (18,639)

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

	Year ended December 31, 2011		
	Call-driven	Archeo	Total
Revenue	$101,830	$44,896	$146,726
Expenses:			
Service costs	56,703	23,841	80,544
Sales and marketing	9,994	3,935	13,929
Product development	17,421	3,957	21,378
General and administrative	9,877	1,901	11,778
Gain on sales of intangible assets	—	9,421	9,421
Segment profit	$ 7,835	$20,683	$ 28,518
Less reconciling items:			
Stock based compensation			15,143
Amortization of intangible assets from acquisitions			5,455
Acquisition and separation related costs			1,890
Interest expense and other, net			458
Income before provision for income taxes			$ 5,572

	Year ended December 31, 2010		
	Call-driven	Archeo	Total
Revenue	$ 46,961	$50,605	$97,566
Expenses:			
Service costs	27,628	29,124	56,752
Sales and marketing	7,629	5,102	12,731
Product development	12,575	3,214	15,789
General and administrative	7,133	2,161	9,294
Gain on sales of intangible assets	—	6,772	6,772
Segment profit (loss)	$ (8,004)	$17,776	$ 9,772
Less reconciling items:			
Stock based compensation			10,832
Amortization of intangible assets from acquisitions			2,729
Acquisition and separation related costs			—
Interest expense and other, net			(129)
Loss before provision for income taxes			$ (3,660)

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.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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

	Years ended December 31,		
	2010	2011	2012
United States	96%	94%	94%
Canada	4%	6%	6%
Other countries	*	*	*
	100%	100%	100%

* Less than 1% of revenue

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, 2012 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, 2012.

(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, 2012, 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 2013 annual meeting of stockholders (the "2013 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, 2012.

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 2013 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 2013 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 2013 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 2013 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, 2011 and 2012;
- Consolidated Statements of Operations for the years ended December 31, 2010, 2011 and 2012;
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 2010, 2011 and 2012;
- Consolidated Statements of Cash Flow for the years ended December 31, 2010, 2011 and 2012; 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, 2013.

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, 2013
/S/ MICHAEL A. ARENDS **Michael A. Arends** **Chief Financial Officer** **(Principal Financial Officer)**	March 12, 2013
/S/ JOHN KEISTER **John Keister** **Executive Vice Chairman and Director**	March 12, 2013
/S/ DENNIS CLINE **Dennis Cline** **Director**	March 12, 2013
/S/ ANNE DEVEREUX **Anne Devereux** **Director**	March 12, 2013

Signature	Date
/S/ NICOLAS J. HANAUER **Nicolas J. Hanauer** **Vice Chairman and Director**	March 12, 2013
/S/ M. WAYNE WISEHART **M. Wayne Wisehart** **Director**	March 12, 2013

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 (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on March 12, 2012 and incorporated herein by reference).
2.8	Asset Purchase Agreement, dated as of May 26, 2006, by and among the Registrant, MDNH, Inc., OpenList, Inc., Brian Harriman, the stockholders of OpenList, Inc., and with respect to the Articles VI and XI only, Brad Gerstner as stockholder representative (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on March 12, 2012 and incorporated herein by reference).
†††2.9	Agreement and Plan of Merger, dated as of August 9, 2007, by and among Registrant, VoiceStar, Inc., and the Shareholders of VoiceStar, Inc.
+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).

Exhibit Number	Description of Document
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).
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.
4.1	Specimen stock certificate representing shares of Class B Common Stock of the Registrant (Filed with the Registrant's Amendment No. 3 to the Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on March 30, 2004 and incorporated herein by reference).
*10.1	Amended and Restated 2003 Stock Incentive Plan (Filed with the Registrant's Amendment No. 2 to the Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on March 19, 2004 and incorporated herein by reference).
*10.2	Executive Employment Agreement, dated as of January 17, 2003, by and between Russell C. Horowitz and the Registrant (Filed with the Registrant's Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on December 11, 2003 and incorporated herein by reference).
*10.3	Executive Employment Agreement, dated as of May 1, 2003, by and between Michael A. Arends and the Registrant (Filed with the Registrant's Amendment No. 1 to the Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on February 19, 2004 and incorporated herein by reference).
*10.4	2004 Employee Stock Purchase Plan (Filed with the Registrant's Amendment No. 1 to the Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on February 19, 2004 and incorporated herein by reference).
10.5	Representative Director and Officer Indemnification Agreement, dated as of February 4, 2004, by and between Russell C. Horowitz and the Registrant (Filed with the Registrant's Amendment No. 2 to the Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on March 19, 2004 and incorporated herein by reference).
+10.6	License Agreement, effective February 14, 2005, by and between Overture Services, Inc. and Registrant (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC on March 14, 2011 and incorporated herein by reference).
*10.7	2004 Employee Stock Purchase Plan, as amended on December 8, 2005 (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC on March 14, 2011 and incorporated herein by reference).
*10.8	Marchex, Inc. Annual Incentive Plan. (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on March 12, 2012 and incorporated herein by reference).
†††*10.9	Form of Restricted Stock Agreement.

Exhibit Number	Description of Document
*10.10	Form of Retention Agreement. (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on March 12, 2012 and incorporated herein by reference).
†††+10.11	Master Services and License Agreement dated as of October 1, 2007, by and between MDNH, Inc. and YellowPages.com LLC.
+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	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).
*10.14	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).
*10.15	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).
*10.16	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).
*10.17	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).
*10.18	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).
10.19	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).
*10.20	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).
+10.21	Amendment No. 1 to Master Services and License Agreement effective as of April 30, 2010, by the between MDNH, Inc. and YellowPages.com LLC d/b/a AT&T Interactive and related Project Addendum No. 1, effective as of January 1, 2009, as amended (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2010 and incorporated herein by reference).
*10.22	Form of Notice of Grant of Executive Officer Stock Option (Performance-Based) (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2010 and incorporated herein by reference).
*10.23	Form of Notice of Grant of Executive Officer Stock Option (Time-Based) (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2010 and incorporated herein by reference).
*10.24	Form of Notice of Grant of Executive Officer Restricted Stock Units (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
*10.25	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).
*10.26	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).
+10.27	Amendments No. 1, 2 and 3 to YAHOO! Publisher Network Service Order, effective as of September 25, 2007, August 1, 2008 and June 1, 2010 respectively, by and between Yahoo! Inc., as successor in interest to Overture Services, Inc., and Yahoo! Sarl, as successor in interest to Overture Search Services (Ireland) Limited, MDNH, Inc. and MDNH International Ltd. (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2010 and incorporated herein by reference).
*10.28	Amendment to the Marchex, Inc. 2003 Amended and Restated Stock Incentive Plan (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2010 and incorporated herein by reference).
*10.29	Marchex, Inc. Amended and Restated Annual Incentive Plan (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC on March 14, 2011 and incorporated herein by reference).
10.30	First Amendment to the Credit Agreement made and entered into as of March 1, 2011, by and among the Registrant, the several banks and other financial institutions or entities from time to time parties to the agreement, and U.S. Bank National Association, as administrative agent (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on March 12, 2012 and incorporated herein by reference).
*10.31	Marchex, Inc. 2012 Stock Incentive Plan (Filed as Appendix A to the Registrant's Definitive Proxy Statement on Form 14A filed with the SEC on April 9, 2012 and incorporated herein by reference).
†*10.32	2004 Employee Stock Purchase Plan, as amended on December 20, 2012.
†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.

Exhibit Number	Description of 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 2.9

AGREEMENT AND PLAN OF MERGER
BY AND AMONG
MARCHEX, INC.
VOICESTAR, INC.
AND THE SHAREHOLDERS OF VOICESTAR, INC.
DATED August 9, 2007

TABLE OF CONTENTS

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

EXHIBITS

A-1 Form of Certificate of Merger (Delaware)
A-2 Form of Certificate of Merger (Pennsylvania)
B Form of Escrow Agreement
C Form of Executive Employment Agreement

SCHEDULES

1.2 Merger Consideration/Exchange Ratio
2.3 Distribution of the Merger Consideration
4.1 Capitalization Table
6.1 Conduct of Business of the Company
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9.4 Required Third Party Consents
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3.3 Consents and Approvals; No Violations
3.4 Company Capital Structure
3.6 Financial Statements; Business Information; Internal Controls
3.9 Legal Proceedings, etc.
3.10 Taxes
3.11 Title to Properties and Related Matters
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3.26 Accounts Receivable
3.27 Projections

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER (the "Agreement") dated as of August 9, 2007, by and among Marchex, Inc., a corporation organized under the laws of the State of Delaware (the "Parent"), VoiceStar, Inc., a corporation organized under the laws of the Commonwealth of Pennsylvania (the "Company"), and the undersigned holders of all of the issued and outstanding capital stock of the Company (the "Shareholders").

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

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

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

ARTICLE I

MERGER

1.1 The Merger. Prior to the Effective Time, Parent shall form a wholly-owned Delaware subsidiary to effectuate the transactions contemplated herein, such acquisition subsidiary to be referred to as "Acquisition Corp". At the Effective Time and subject to and upon the terms and conditions of this Agreement, the Certificates of Merger, the Delaware General Corporation Law (the "DGCL") and the Pennsylvania Business Corporation Law (the "PBCL"), Acquisition Corp. shall be merged with and into the Company, the separate existence of Acquisition Corp. shall cease, and the Company shall continue as the surviving corporation. The Company as the surviving corporation after the Merger is hereinafter sometimes referred to as the "Surviving Corporation."

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

1.3 Effect of the Merger. At the Effective Time, the effect of the Merger shall be as provided in this Agreement, the Certificates of Merger and the applicable provisions of the

DGCL and the PBCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all the property, rights, privileges, powers and franchises of the Company and Acquisition Corp. shall vest in the Surviving Corporation, and all debts, liabilities and duties of the Company and Acquisition Corp. shall become the debts, liabilities and duties of the Surviving Corporation, all without further act or deed.

1.4 Articles of Incorporation; By-Laws.

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

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

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

1.6 Conversion of Shares.

(a) Conversion of Shares. Each share of Common Stock issued and outstanding as of the Effective Time (other than shares owned by holders who have properly exercised their rights of appraisal within the meaning of Subchapter D of Title 15 of the PBCL ("Dissenting Shares") shall, by virtue of the Merger and without any action on the part of the holder thereof, automatically be converted into an amount in cash equal to the quotient obtained by dividing the Cash Consideration by the total number of Fully Diluted Shares as of the Effective Time. Such resulting quotients are referred to herein as the "Exchange Ratio." "Fully Diluted Shares" shall be equal to the total number of outstanding shares of Common Stock, immediately prior to the Closing Date, calculated on a fully diluted, fully converted basis as though all convertible debt and equity securities and options that are vested and exercisable as of the Effective Time and warrants had been converted or exercised but excluding any convertible debt being paid off at Closing. Schedule 1.2 attached hereto sets forth, with respect to the Merger Consideration, (i) the Exchange Ratio and (ii) the aggregate cash payment to be paid in connection with the Merger to the Shareholders.

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

(c) Stock Options. Each outstanding option to purchase shares of Company Common Stock (each, a "Company Option"), which will vest as of the Effective Time, shall be exercised on the Closing Date with the exercise price thereof duly paid to the Company or via a cashless exercise as provided for in such option agreements. In connection with the exercise of any such Company Option, the Company shall withhold the requisite amount for tax purposes provided in Section 1.8 hereof. Each outstanding Company Option, not already vested and outstanding immediately prior to the Effective Time, shall be cancelled at the Effective Time without the payment of any consideration therefore, and shall be of no further force and effect, without any assumption thereof.

(d) Warrants. Each Company Warrant shall be (i) exercised on the Closing Date with the exercise price thereof duly paid to the Company or via a cashless exercise as provided for in such warrant agreements or (ii) cancelled at the Effective Time without the payment of any consideration therefore, and shall be of no further force and effect, without any assumption thereof.

(e) Acquisition Corp. Shares. Each share of Acquisition Corp. common stock, par value $0.01 per share, issued and outstanding immediately prior to the Effective Time shall be converted into and exchanged for one validly issued, fully paid and nonassessable share of common stock, par value $0.01 per share, of the Surviving Corporation.

(f) Dissenting Shares. Any Dissenting Shares shall be converted into the right to receive such consideration as may be determined to be due with respect to each such Dissenting Share pursuant to Subchapter D of Title 15 of the PBCL; provided, however, that Dissenting Shares held by a holder who shall, after the Effective Time of the Merger, withdraw his demand for appraisal or lose his right of appraisal as provided in Subchapter D of Title 15 of the PBCL, shall be deemed to be converted, as of the Effective Time of the Merger, into the right to receive such holder's Pro Rata Portion of the Merger Consideration in accordance with the procedures specified in Section 2.3(a). The Company shall give Parent (i) prompt notice of any written demands for appraisal, withdrawals of demands for appraisal and any other instruments served pursuant to Subchapter D of Title 15 of the PBCL received by the Company, and (ii) the opportunity to direct all negotiations and proceedings with respect to demands for appraisal under Subchapter D of Title 15 of PBCL. The Company will not voluntarily make any payment with respect to any demands for appraisal and will not, except with the prior written consent of Parent, settle or offer to settle any such demands.

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

1.8 Withholding. Parent, the Surviving Corporation or the Company shall be entitled to deduct and withhold from any Merger Consideration payable or otherwise deliverable pursuant to this Agreement and from any holder or former holder of Company Options with respect to the exercise, cancellation, termination or otherwise disposition of such Company Options, including Company Stock options which have already been exercised, such amounts as Parent, the Surviving Corporation or the Company may be required to pay, deduct or withhold therefrom under the Code or under any provision of state, local or foreign tax law resulting from the transactions contemplated herein. To the extent such amounts are so paid, deducted or withheld, such amounts shall be treated for all purposes under this Agreement as having been paid to the person to whom such amounts would otherwise have been paid.

ARTICLE II

PAYMENTS AND CLOSING

2.1 Total Merger Consideration. The consideration payable by virtue of the Merger to the holders of shares of the Company's Common Stock, $0.00001 par value per share (the "Common Stock") shall consist of $11,350,000 (the "Cash Consideration" or the "Merger Consideration") less (i) any Company Acquisition Expenses and less (ii) the amount of any Company indebtedness, excluding the Working Capital Loan, greater than $1,134,000.

2.2 Time and Place of Closing. Unless this Agreement shall have been terminated and the transactions herein contemplated shall have been abandoned pursuant to Article XI and subject to the satisfaction or waiver of the conditions set forth in Articles IX and X, the consummation of the Merger (the "Closing") will take place as promptly as practicable (and in any event within two (2) business days) after satisfaction or waiver of the conditions set forth in Articles IX and X, at the offices of Marchex, Inc., 413 Pine Street, Suite 500, Seattle, Washington, 98101 unless another date, time or place is agreed to in writing by the Company and the Parent. Subject to the satisfaction or waiver of the conditions set forth in Articles IX and X, the Company and the Acquisition Corp. shall execute and deliver an agreement or certificate of merger relating to the Merger in accordance with DGCL and PBCL on or before the Closing Date, and shall cause such agreement or certificate of merger to be filed in accordance with DGCL and PBCL on the Closing Date. 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.

2.3 Exchange of Certificates.

(a) At the Closing, certificates representing not less than one hundred percent (100%) of the issued and outstanding shares of Company Common Stock shall be surrendered for cancellation and termination in the Merger. At the Effective Time, each certificate representing issued and outstanding shares of Company Common Stock (each, a "Certificate") shall be canceled in exchange for the amount of Merger Consideration pursuant to Section 2.1. After payment by the Company (or by Parent as directed by the Company) of all fees and

expenses incurred by the Company in connection with this Agreement in accordance with Section 7.5 from the Cash Consideration portion of the Merger Consideration, the remaining Merger Consideration shall be distributed as follows (as set forth on Schedule 2.3) to the extent Certificates have been surrendered at Closing (or thereafter upon surrender of Certificates) the remaining Cash Consideration shall be wired to an account or accounts designated by the Shareholders, less $1,135,000 which shall be placed in escrow to partially secure the obligations pursuant to Article XII hereof (the "Cash Escrow"). Until surrendered in connection herewith, each outstanding Certificate which immediately prior to the Effective Time represented shares of Common Stock shall be deemed for all corporate purposes to evidence ownership of the amount of cash and Stock issuable upon conversion of such shares of Common Stock, but shall, subject to applicable appraisal rights under the PBCL, have no other rights. Subject to appraisal rights under the PBCL, from and after the Effective Time, the holders of shares of Common Stock shall cease to have any rights in respect of such shares and their rights shall be solely in respect of the amount of cash and into which such shares of Common Stock have been converted.

(b) If any cash is to be paid in the name of a person other than the person in whose name the Certificate(s) surrendered in exchange therefor is registered, it shall be a condition to the payment of such cash that (i) the Certificate(s) so surrendered shall be transferable, and shall be properly assigned, endorsed or accompanied by appropriate stock powers, (ii) such transfer shall otherwise be proper, and (iii) the person requesting such transfer shall pay Parent, or its exchange agent, any transfer or other taxes payable by reason of the foregoing or establish to the reasonable satisfaction of Parent that such taxes have been paid or are not required to be paid. Notwithstanding the foregoing, neither Parent nor the Company shall be liable to a holder of shares of Common Stock for cash paid to such holder pursuant to the provisions of Section 1.2(a) of this Agreement that are delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

(c) In the event any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed, Parent shall issue in exchange for such lost, stolen or destroyed Certificate the cash issuable in exchange therefor pursuant to the provisions of Section 1.2(a) of this Agreement. The Board of Directors of Parent may in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed Certificate to provide to Parent an indemnity agreement against any claim that may be made against Parent with respect to the Certificate alleged to have been lost, stolen or destroyed.

2.4 Intentionally Omitted.

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

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

2.7 Closing Escrow. At Closing, Parent will deposit in escrow on behalf of the Shareholders 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 XII pursuant to the provisions of an Escrow Agreement (the "Escrow Agreement") in the form of Exhibit B attached hereto.

2.8 Working Capital Loan. In connection with the execution hereof, Parent shall loan up to Four Hundred Thousand Dollars ($400,000) in cash to the Company pursuant to a promissory note of even date (the "Working Capital Loan").

2.9 Signing Loan. In connection with the execution hereof, Parent shall loan Three Million One Hundred Thousand Dollars ($3,100,000) in cash to the Company pursuant to a promissory note of even date (the "Signing Loan" and together with the Working Capital Loan, the "Loans").

2.10 Merger Consideration Adjustment.

(a) General. As an adjustment to the Merger Considerations, the Shareholders agree to pay to Parent the amount, if any, by which the Final Stated Assets minus the Final Stated Liabilities is less than zero.

(b) Definitions. The following terms, as used herein, have the following meanings:

"Accounting Referee" means a firm of independent regionally or nationally recognized accountants having no material relationship with the Parent or the Company selected by Parent and reasonably acceptable to the Principal Shareholders.

"Closing Balance Sheet" means a balance sheet for the Company as of the close of business on the Closing Date that (i) fairly presents the financial position of the Company as at the close of business on the Closing Date, and (ii) is prepared in accordance with GAAP consistently applied.

"Closing Net Worth" means Closing Stated Assets minus Closing Stated Liabilities.

"Closing Stated Assets" means the sum of the Company's current assets, excluding proceeds of the Loans.

"Closing Stated Liabilities" means the sum of the Company's current liabilities, excluding Company Acquisition Expenses and Company indebtedness (including without limitation, as an item of Company indebtedness the Loans and equipment leases).

"Final Stated Assets" means Closing Stated Assets (i) as shown in the Parent's calculation delivered pursuant to Section 2.10(c) if no notice of disagreement with respect thereto is delivered by Principal Shareholders pursuant to Section 2.10(d) or (ii) if such a notice of disagreement is delivered, (A) as agreed by the parties pursuant to Section 2.10(e) or (B) in the absence of such agreement, as shown in the Accounting Referee's calculation delivered pursuant to Section 2.10(e).

"Final Stated Liabilities" means Closing Stated Liabilities (i) as shown in the Parent's calculation delivered pursuant to Section 2.10(c) if no notice of disagreement with respect thereto is delivered by Principal Shareholders pursuant to Section 2.10(d) or (ii) if such a notice of disagreement is delivered, (A) as agreed by the parties pursuant to Section 2.10(e) or (B) in the absence of such agreement, as shown in the Accounting Referee's calculation delivered pursuant to Section 2.10(e).

(c) Preparation of Closing Balance Sheet. As promptly as practicable after the Closing Date, the Parent will cause the Closing Balance Sheet to be prepared and will prepare a certificate based on such Closing Balance Sheet setting forth its calculation of Closing Net Worth. As promptly as practicable, but no later than ninety (90) days, after the Closing Date, the Parent will cause the Closing Balance Sheet to be delivered to the Principal Shareholders.

(d) Disagreement by the Principal Shareholders. If the Principal Shareholders disagree with the Parent's calculation of Closing Net Worth, the Principal Shareholders may, within 20 days after receipt of the documents referred to in Section 2.10(c), deliver a notice to the Parent disagreeing with such calculation and setting forth the Principal Shareholders' calculation of the Closing Balance Sheet and Closing Net Worth. Any such notice of disagreement shall specify those items or amounts as to which the Principal Shareholders disagree, and the Principal Shareholders shall be deemed to have agreed with all other items and amounts contained in the Closing Balance Sheet and the calculation of Closing Net Worth delivered by the Parent pursuant to Section 2.10.

(e) Dispute Resolution. If a notice of disagreement shall have been delivered by the Principal Shareholders pursuant to Section 2.10(d), the parties shall, during the 20 days following such delivery, use their commercially reasonable efforts to reach agreement on the disputed items or amounts in order to determine the amount of Closing Net Worth, which amount shall not be less than the amount shown in the Parent's calculation thereof delivered pursuant to Section 2.10(c) nor more than the amount shown in the Principal Shareholders' calculation thereof delivered pursuant to Section 2.10(d). If, during such period, the parties are unable to reach agreement, they shall promptly thereafter cause the Accounting Referee promptly to review this Agreement and arbitrate the disputed items or amounts for the purpose of calculating Closing Net Worth. In making such calculation, the Accounting Referee shall consider only those items or amounts in the Closing Balance Sheet or the Parent's calculation of Closing Net Worth as to which the Principal Shareholders have disagreed and rely only on the presentations of the Principal Shareholders and Parent rather than an independent review. The Accounting Referee shall deliver to the Principal Shareholders and Parent, as promptly as practicable, a report setting forth such calculation. Such report shall be final and binding upon the parties hereto. The cost of such review and report shall be borne (i) by the Principal Shareholders if the Parent's calculation of Closing Net Worth is closer to Final Net Worth than the Principal Shareholders' calculation thereof, (ii) by the Parent if the reverse is true and (iii) otherwise equally by the Principal Shareholders and the Parent.

(f) Cooperation. The parties hereto agree that they will, and agree to cause their respective independent accountants to, cooperate and assist in the preparation of the Closing Balance Sheet and the calculation of the Closing Net Worth and in any reviews referred to in this Section 2.10, including without limitation the making available to the extent necessary of books, records, work papers and personnel.

(g) Time of Payment. Any payment pursuant to this Section 2.10 shall be made at a mutually convenient time and place (i) within 30 days after the Parent's delivery of the documents referred to in Section 2.10(c) if no notice of disagreement with respect to Closing Net Worth is delivered by the Principal Shareholders or (ii) if a notice of disagreement with respect to Closing Net Worth is so delivered then within 10 days after the earlier of (A) agreement between the parties pursuant to Section 2.10(e) with respect to Closing Net Worth and (B) delivery of the calculation of Closing Net Worth by the Accounting Referee pursuant to Section 2.10(e).

(h) Method of Payment. Any payments pursuant to this Section 2.10 shall be made by delivery by the Shareholders of a certified or official bank check payable immediately available funds to the Parent, or by causing such payments to be credited to such account of the Parent as my be designated by the Parent. The amount of any payment to be made pursuant to this Section 2.10 shall bear interest from and including the Closing Date to but excluding the date of payment at a rate per annum equal to the rate publicly announced from time to time by Bank of America N.A. as its base or prime rate in New York City in effect from time to time during the period from the Closing Date to the date of payment. Such interest shall be payable at the same time as the payment to which it relates and shall be calculated daily on the basis of a year of 365 days and the actual number of days for which due. In the event the Shareholders fail to make timely payments due hereunder to Parent, Parent shall be entitled to recover such amounts from the Escrow Deposit without application of Section 12.6.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

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

3.1 Corporate Organization.

The Company is a corporation duly organized, validly existing and in good standing under the Laws of the Commonwealth of Pennsylvania. 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 the Company's business as presently conducted. The Company is duly qualified to transact business as a foreign corporation and is in good standing in the jurisdictions set forth in Schedule 3.1(a) hereto, which are the only jurisdictions where such

qualification is required by reason of the nature of the properties and assets currently owned, operated or leased by it or the business currently conducted by it, except for such jurisdictions where the failure to be so qualified would not have a Company Material Adverse Effect. The Company has previously delivered to the Parent complete and correct copies of the Articles of Incorporation of the Company (certified by the secretary of state for the Commonwealth of Pennsylvania 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 Articles of Incorporation nor its By-Laws has been amended since the date of certification thereof, nor has any action been taken for the purpose of effecting any amendment of such instrument.

3.2 Authorization. The Company has full corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly approved by the Board of Directors of the Company and adopted by the Shareholders and no other proceeding on the part of the Company is necessary to approve and authorize the execution and delivery of this Agreement or (subject to the filing of the Certificates of Merger pursuant to the DGCL and PBCA) the consummation of the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Company and constitutes the valid and binding agreement of the Company enforceable in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, reorganization, insolvency, moratorium or other Laws affecting the enforcement of creditors' rights generally and by general principles of equity, regardless of whether such enforceability is considered in a proceeding in Law or in equity.

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

3.4 Company Capital Structure.

(a) Immediately prior to the transactions contemplated hereunder, the authorized capital stock of the Company consists of (i) 10,000,000 shares of Company Common Stock, $0.00001 par value per share ("Common Stock") of which 8,000,000 are issued and outstanding (which such amounts include the shares issuable upon exercise of the Company Options on the Closing Date). The Company Common Stock, including all shares subject to the Company's right of repurchase, is held of record beneficially by the Persons with the addresses and in the amounts and represented by the certificates set forth on Schedule 3.4(a). All outstanding shares of Company Common Stock (i) have been duly authorized and validly issued and are fully paid, non-assessable and not subject to preemptive rights or similar rights created by statute, the Company's Articles of Incorporation, the By-Laws of the Company or any agreement or document to which the Company is a party or by which it is bound, and (ii) have been offered, sold, issued and delivered by the Company in all material respects in compliance with all applicable Laws, including federal and state corporate and securities Laws. There are no declared or accrued but unpaid dividends with respect to any shares of Company Common Stock. Except as set forth in this Section 3.4, as of the date of this Agreement no shares of Company Common Stock, other equity securities, partnership interests or similar ownership interests or other voting securities of the Company or any securities exchangeable or convertible into or exercisable for such capital stock, other equity securities, partnership interests or similar ownership interests or other voting securities of the Company, were issued, reserved for issuance or outstanding. Except as set forth on Schedule 3.4(a), 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 Shareholders of the Company may vote. Except as set forth on Schedule 3.4, the Company has never repurchased, redeemed or otherwise acquired or caused the repurchase, redemption or acquisition of any shares of Company Common 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 Company Common Stock or other securities of the Company. There is no claim or basis for such a claim to any portion of the Merger Consideration except as set forth in Schedule 1.2 by any current or former Shareholder, option holder or warrant holder of the Company, or any other Person.

(i) Except for the Company's 2006 Stock Plan (the "Company Option Plan"), as amended, the Company has never adopted, sponsored or maintained any stock option plan or any other plan or agreement providing for equity compensation to any Person. The Company Option Plan has been duly authorized, approved and adopted by the Company's Board of Directors and the Shareholders and is in full force and effect. The Company has reserved for issuance to Employees of and consultants to the Company 2,000,000 shares of Company Common Stock under the Company Option Plan, of which options to purchase 430,000 shares of Company Common Stock have been granted and are outstanding (each, a "Company Option"). Except as set forth on Schedule 3.4, all outstanding Company Options have been offered, issued and delivered by the Company in all material respects in compliance with all applicable Laws, including federal and state corporate and securities Laws, and in compliance with the terms and conditions of the Company Option Plan. Schedule 3.4(a)(i) sets forth for each outstanding Company Option, the name of the holder of such option, the domicile address of such holder, an

indication of whether such holder is an Employee of the Company, the date of grant or issuance of such option, the number of shares of Company Common Stock subject to such option, the exercise price of such option, the vesting schedule for such option, including the extent vested on the date of this Agreement and whether and to what extent the exercisability of such option will be accelerated and become exercisable as a result of the transactions contemplated by this Agreement, and whether such Company Option is or is not an incentive stock option as defined in Section 422 of the Code.

(ii) The Company has outstanding warrants for the purchase of shares of Company Common Stock (each, a "Company Warrant"). All Company Warrants have been offered, issued and delivered by the Company in all material respects in compliance with all applicable Laws, including federal and state corporate and securities Laws. Schedule 3.4(a)(ii) sets forth for each outstanding Company Warrant, the name of the holder of such Company Warrant, the domicile address of such holder, an indication of whether such holder is an Employee of the Company, the date of grant or issuance of such Company Warrant, the number of shares of Company Common Stock subject to such Company Warrant, the exercise price of such Company Warrant, the vesting schedule for such Company Warrant, including the extent vested to the date of this Agreement and whether and to what extent the exercisability of such Company Warrant will be accelerated and become exercisable as a result of the transactions contemplated by this Agreement.

(iii) Except for the Company Options and Company Warrants, there are no Company Stock Rights or agreements of any character, written or oral, obligating the Company to issue, deliver, sell, repurchase or redeem, or cause to be issued, delivered, sold, repurchased or redeemed, any Company Common Stock or any capital stock or equity or other ownership interest of the Company or obligating the Company to grant, extend, accelerate the vesting of, change the price of, otherwise amend or enter into any such Company Stock Right. There are no outstanding or authorized stock appreciation, phantom stock, profit participation, or other similar rights with respect to the Company.

(b) Except for the agreements or understandings set forth on Schedule 3.4(b) (collectively, the "Shareholder Voting Agreements"), there are no (i) voting trusts, proxies, or other agreements or understandings with respect to the voting stock of the Company to which the Company is a party, by which the Company is bound, or of which the Company has knowledge, or (ii) agreements or understandings to which the Company is a party, by which the Company is bound, or of which the Company has knowledge relating to the registration, sale or transfer (including agreements relating to rights of first refusal, "co-sale" rights or "drag-along" rights) of any Company Common Stock. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby and thereby does not implicate any rights or obligations under the Shareholder Voting Agreements that have not been complied with or waived. The Shareholders of Company Common Stock and Company Stock Rights have been or will be properly given, or shall have properly waived, any required notice prior to the transactions contemplated herein.

3.5 Subsidiaries.

(a) The Company does not own and has never otherwise owned, directly or indirectly, any capital stock of or any other equity interest in, or controlled, directly or indirectly, any other Person, and the Company is not and has not otherwise been, directly or indirectly, a party to, member of or participant in any partnership, joint venture or similar business entity.

3.6 Financial Statements; Business Information; Internal Controls.

(a) Attached hereto as Schedule 3.6(a) are (i) the unaudited balance sheets of the Company as of December 31, 2005 and December 31, 2006 and the unaudited statements of operations and cash flow for the fiscal periods then ended, and (ii) the unaudited balance sheet of the Company as of June 30, 2007 (the "Balance Sheet") and the unaudited statements of operations and cash flow of the Company for the six (6) months then ended (hereinafter collectively referred to as the "Financial Statements"). The Financial Statements (i) have been prepared from the books and records of the Company, (ii) have been prepared in accordance with GAAP consistently applied during the periods covered thereby, and (iii) present fairly in all material respects the financial condition and results of operations of the Company as at the dates, and for the periods, stated therein, except that the interim Financial Statements do not include footnote disclosures and may be subject to normal year-end adjustments which will not be individually or in the aggregate material in amount or effect. For the purposes of this Agreement, generally accepted accounting principles shall mean generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board and rules promulgated by the United States Securities and Exchange Commission (the "SEC") and its related interpretations or in such other statements by such other entity as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination ("GAAP").

(b) Schedule 3.6(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) approximate number of calls, and (ii) approximate number of call minutes, each for the months of May, June and July of 2007 (together, 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 contained herein, the Company specifically acknowledges 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 Merger Consideration.

(c) Except as set forth on Schedule 3.6(c), to the Company's knowledge, the Company has not directly or indirectly installed, imbedded or derived any traffic from any Spyware or Malware Software sources.

(d) The Company has in place systems and processes that are: (i) designed to provide reasonable assurances regarding the reliability of the Financial Statements; and (ii) to the Company's knowledge, adequate for a company at the same stage of development as the Company. To the Company's knowledge, there have been no instances of fraud, whether or not material, which occurred during any period covered by the Financial Statements, except as set forth on Schedule 3.6(d).

(e) To the Company's knowledge, no Employee has provided information to any Governmental Entity regarding the commission of any crime or violation of any law applicable to the Company or any part of its operations.

(f) All items included in the Inventories consist of a quality and quantity usable and, with respect to finished goods, saleable, in the ordinary course of business of the Company except for obsolete items and items of below-standard quality, all of which have been written off or written down to net realizable value in the Balance Sheet. The Company is not in possession of any inventory not owned by either the Company, including goods already sold, other than in the ordinary course of the Company's business.

3.7 Undisclosed Liabilities. The Company's business is neither liable for nor subject to any material Liability except for (i) those Liabilities reflected on the Balance Sheet and not previously paid or discharged, (ii) contractual and other Liabilities incurred in the ordinary course of business which are not required by GAAP to be reflected on a balance sheet, which would not individually or collectively result in a Company Material Adverse Effect, and (iii) those Liabilities which have arisen since the date of the Balance Sheet in the ordinary course of business, which would not individually or collectively result in a Company Material Adverse Effect.

3.8 Absence of Certain Changes or Events. Except as set forth on Schedule 3.8 hereto, since June 30, 2007, the Company has carried on its business in all material respects in the ordinary course and consistent with past practice. Except as set forth on Schedule 3.8 or as set forth or reserved against in the Balance Sheet, since June 30, 2007, the Company has not: (i) incurred any material obligation or Liability 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 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 or any bonus or service award or other like benefit, or instituted, increased, augmented or improved any Company Employee Plan; or (xii) entered into any agreement to do any of the foregoing.

3.9 Legal Proceedings, etc. Except as set forth on Schedule 3.9, there are no suits, actions, claims, proceedings (including, without limitation, arbitral or administrative proceedings) or investigations pending or, to the knowledge of the Company, threatened against the Company, any of its properties, assets or the business of the Company or, to the knowledge of the Company, 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, 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 the business of the Company, which is unsatisfied or which requires continuing compliance therewith by the Company. Schedule 3.9 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 3.9 hereto sets forth all suits, actions, claims, proceedings or investigations regarding any equity security of the Company which the Company has ever been involved in or received notice of.

3.10 Taxes.

(a) Except as set forth on Schedule 3.10, the Company has properly and timely filed all Tax Returns, or extensions therefor, and other filings in respect of Taxes required to be filed by it on or prior to the date hereof, and has in a timely manner paid all Taxes which are due, 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. 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. In all material respects, all such Tax Returns are accurate and complete and in compliance with all laws, rules and regulations.

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

(c) 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 or as a transferee, successor or guarantor or by contract, indemnification or otherwise.

(d) The Company has withheld all amounts from its 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.

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

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

(g) Except as set forth on Schedule 3.10(g), 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 does not conduct business in nor derive 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 Parent.

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

(i) 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.

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

(k) The Company is not a Shareholder, directly or indirectly, in a passive foreign investment company within the meaning of Sections 1291 through 1297 of the Code.

(l) 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 Parent 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.

(m) The Company is not a party to any gain recognition agreement under Section 367 of the Code.

(n) Schedule 3.10(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) Since December 31, 2004, each nonqualified deferred compensation plan, program, arrangement or agreement has been operated and maintained in accordance with the requirements of IRS Notice 2005-1 and a good faith, reasonable interpretation of Section 409A of the Code and its purpose with respect to amounts deferred (within the meaning of Section 409A of the Code) after December 31, 2004.

(p) No Shareholder holds Common Stock that is non-transferable and subject to a substantial risk of forfeiture within the meaning of Section 83 of the Code with respect to which a valid election under Section 83(b) of the Code has not been made.

(q) Any "nonqualified deferred compensation plan" (within the meaning of Section 409A of the Code) to which the Company is a party complies with the requirements of paragraphs (2), (3) and (4) of Section 409A of the Code by its terms (or is exempt from those paragraphs), and if not exempt, has been operated in accordance with such requirements. No event has occurred that would be treated by Section 409A(b) of the Code as a transfer of property for purposes of Section 83 of the Code.

(r) At all times since inception, the Company (and any predecessor of the Company) has been a validly electing S corporation within the meaning of Sections 1361 and 1362 of the Code, as well as for any state or local income tax purposes, and the Company will be an S corporation up to and including the Closing Date (assuming that Parent will make a Section 338(h)(10) Election) and accordingly the provisions of Sections 280G and 4999 of the Code are not applicable to the Company. The Company does not have any subsidiaries. The Company shall not be liable for any Tax under Code Section 1374 in connection with the deemed sale of the Company's assets (including the assets of any qualified subchapter S subsidiary) caused by the Section 338(h)(10) Election. Neither the Company nor any qualified subchapter S subsidiary of the Company has, in the past 10 years, (A) 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 (B) acquired the stock of any corporation which is a qualified subchapter S subsidiary.

3.11 Title to Properties and Related Matters.

(a) The Company has good and marketable title to all personal property, tangible or intangible, which the Company purports to own, including the properties reflected on the Balance Sheet or acquired after the date thereof (other than properties and assets sold or otherwise disposed of in the ordinary course of business and consistent with past practice since December 31, 2006), 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 $20,000 in each individual case), (ii) liens for Taxes not yet due and payable, and (iii) such imperfections of title and encumbrances, if any, that are not material in character, amount or extent and that do not materially detract from the value, or materially interfere with the use of, the property subject thereto or affected thereby. Collectively, such property, the Company Intellectual Property disclosed on Schedule 3.12 and property leased by the Company and set forth on Schedule 3.11(d) constitute all property, tangible or intangible, necessary to conduct the business of the Company as presently conducted.

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

(c) Schedule 3.11(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, 2006, in each case of $30,000 or more. Except as set forth on Schedule 3.11(c) hereto, all such personal property is in suitable operating condition (ordinary and reasonable wear and tear excepted) and is physically located in or about one of the places of business of the Company and is owned by the Company or is leased by the Company under one of the leases set forth in Schedule 3.11(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 all 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.

(d) Schedule 3.11(d) sets forth a complete and correct list of all real property and personal property leases to which the Company is a party. The Company has previously delivered to the Parent complete and correct copies of each lease (and any amendments or supplements thereto) listed in Schedule 3.11(d) hereto. Except as set forth on Schedule 3.11(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, any other party is in material 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 material default by the Company or to the knowledge of the

Company, a default by any other party under such lease; and (iii) except as set forth on Schedule 3.11(d), there is no requirement under any such lease that the Company either obtain the lessor's consent to, or notify the lessor of, the consummation of the transactions contemplated by this Agreement.

3.12 Intellectual Property; Proprietary Rights; Employee Restrictions.

(a) Set forth on Schedule 3.12(a) hereto is a list of all Company Intellectual Property or other Intellectual Property required to operate the business of the Company 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 or made available to Parent prior to the date hereof, all of which are valid and binding agreements of the parties thereto, enforceable in accordance with their terms. Except as set forth on Schedule 3.12(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 business of the Company as currently conducted, free and clear of any lien or encumbrance; and all such Intellectual Property rights are in full force and effect. Except as set forth on Schedule 3.12(a), the Company is the exclusive owner of all trademarks and trade names used in connection with the operation of the business of the Company as currently conducted, including the sale of any products or the provision of any services by Company. Except as set forth on Schedule 3.12(a), the Company owns exclusively, and has good title to, all copyrighted works that are Company products or which the 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 3.12(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 material manner the use, transfer, or licensing thereof by Company which may affect in any material respects 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 3.12(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 3.12(d), the Company has a written agreement with such third party that assigns to the Company exclusive ownership of such Intellectual Property, each of which is a valid and binding agreement of the parties thereto, enforceable in accordance with its terms. Except as set forth on Schedule 3.12(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 its web sites) as presently conducted and has received no written 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 3.12(e), the Company has not transferred ownership of, or granted any exclusive license with respect to, any Intellectual Property that is or was Company Intellectual Property to any third party.

(f) Except as set forth on Schedule 3.12(f), the operation of the Company's business as such business currently is conducted, including the Company's design, development, manufacture, marketing and sale of the products or services of the Company has not and does not, and with respect to products currently under development to the Company's knowledge will not, infringe or misappropriate the Intellectual Property of any third party or, to its knowledge, constitute unfair competition or trade practices under the Laws of any jurisdiction.

(g) Except as set forth on Schedule 3.12(g), the Company has not received any written notice or other written claim from any third party that the operation of the Company's business 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, 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, except as set forth on Schedule 3.12(i), the Company has enforced a policy requiring each employee and contractor to execute a proprietary information/confidentiality agreement substantially in the form provided or made available to Parent, and all current and former employees and contractors of Company have executed such an agreement. To the knowledge of the Company, 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, no employee or consultant of the Company has used any trade secrets or other confidential information of any other Person in the course of their work for the Company, nor is the Company making unlawful use of any confidential information or trade secrets of any past or present employees of the Company.

Except as set forth on Schedule 3.12(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 or made available 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 Shareholders in any of the Company Intellectual Property which is used or is useful in the Company's business, have been validly assigned, transferred and/or conveyed to the Acquisition Corp. as part of the transactions contemplated hereunder and the Company has not retained any rights with respect thereto. Except as set forth on Schedule 3.12(i), neither the Company, the Shareholders, nor to the knowledge of the Company, 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 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 owned and operated by the Company (other than information provided by users, customers, advertisers and other third parties) is accurate and complete in all material respects.

(k) Schedule 3.12(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 Company's 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 3.12(k), the Company has not (i) incorporated any Open Source Materials into, or combined Open Source Materials with, any products of the Company's business, (ii) distributed Open Source Materials in connection with any products of the Company's 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.

(l) In connection with the operation of the Company's website, the Company has complied in all material respects with (i) all applicable legal requirements relating to privacy, commercial e-mail, data protection and security and the collection, storage, disclosure and/or use of personal information and user information (including information from or about children) gathered or accessed in the course of the operation of the Company's website, and (ii) all rules, policies and procedures established by the Company with respect to privacy, publicity, commercial e-mail, data protection and security and the collection, storage, disclosure and/or use of personal information and user information (including information from or about children) gathered or accessed in the course of the operation of such the Company's website, and with

respect to the foregoing, except as set forth on Schedule 3.12(l), the Company has not received any written notice from any Person of any claims alleging any violation thereof. In connection with the operation of the Company's website, the Company has taken all reasonably necessary steps (including implementing and monitoring compliance with measures with respect to technical and physical security) to ensure that the personal and user information gathered or accessed in the course of the operation of the Company's website is protected against material loss and unauthorized access, use, modification or disclosure, and, to the knowledge of the Company, there has been no unauthorized access to or other misuse of any such information.

3.13 Contracts. (a) Except as set forth on Schedules 3.13(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 $50,000;

(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 $20,000 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 3.12(a).

(b) The Company has previously provided or made available to the Parent complete and correct copies (or, in the case of oral contracts, a complete and correct description) of any contract (and any amendments or supplements thereto) listed on Schedule 3.13(a) hereto. Except as set forth on Schedule 3.13(b) hereto, (i) each contract listed in Schedule 3.13(a) hereto is in full force and effect; (ii) neither the Company nor to the knowledge of the Company, any other party is in default under any contract listed in Schedule 3.13 (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, a default by any other party under such contract; (iii) to the knowledge of the Company, there are no disputes or disagreements between the Company and any other party with respect to any contract listed in Schedule 3.13 (a) hereto, except where the existence of such disputes or disagreements, individually or in the aggregate, has not had a Company Material Adverse Effect; and (iv) each other party to each such material contract has consented or been given notice (or prior to the Closing shall have consented or been given notice), where such consent or the giving of such notice is necessary in order for such contract to remain in full force and effect following the consummation of the transactions contemplated by this Agreement without modification in the rights or obligations of the Company thereunder.

(c) Except as set forth on Schedule 3.13(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 3.13(a)-(c) 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 the Company's business, operations, properties or assets, except for any violation that would not have a Company Material Adverse Effect.

3.14 Employment Matters.

(a) Schedule 3.14(a) sets forth, (A) with respect to each current Employee (including any Employee who is on a leave of absence of any nature, paid or unpaid, authorized or unauthorized, including disability, family or other leave, sick leave, or on layoff status subject to recall) (i) the name of such Employee and the date as of which such Employee was originally hired by the Company and whether the Employee is on an active or inactive status; (ii) such Employee's title; (iii) such Employee's annualized compensation as of the date of this Agreement, including base salary, vacation and/or paid time off accrual amounts, bonus and/or commission potential, severance pay potential, and any other compensation forms; (iv) whether such Employee is not fully available to perform work because of a qualified disability or other leave and, if applicable, the basis of such disability or leave and the anticipated date of return to full service; (v) each current benefit plan in which such Employee participates or is eligible to participate; (B) any governmental authorization, permit or license that is held by such Employee

and that is used in connection with the Company's business; and (C) with respect to each current and former Employee, whether such current or former Employee has executed the Company's standard form nondisclosure, confidentiality and assignment of inventions agreement.

(b) Schedule 3.14(b) contains a list of individuals who are currently performing services for the Company and are classified as "consultants" or "independent contractors," the respective compensation of each such "consultant" or "independent contractor" and whether the Company is party to a consulting or independent contractor agreement with the individual. Any such agreements have been delivered or made available to Parent and are set forth on Schedule 3.14(b). Any Persons now or heretofore engaged by the Company as independent contractors, rather than Employees, have been properly classified as such, are not entitled to any compensation or benefits to which regular, full-time Employees are or were at the relevant time entitled, and were and have been engaged in accordance with all applicable Laws, and received the proper tax treatment for compensation received by them.

(c) Each employment agreement is set forth on Schedule 3.14(c) and a copy of each employment agreement and any amendment thereto has been provided or made available to Parent. Except as set forth in Schedule 3.14(c), the employment of each of the Employees is terminable by the Company at will (except for non-U.S. employees of the Company located in a jurisdiction that does not recognize the "at will" employment concept) and the Company does not have any obligation to provide any particular form or period of notice prior to terminating the employment of any of its employees, except as set forth on Schedule 3.14(c). The Company has not, and to the knowledge of Company, no other Person has, (i) entered into any agreement that obligates or purports to obligate Parent to make an offer of employment to any present or former Employee or consultant of the Company or (ii) promised or otherwise provided any assurances (contingent or other) to any present or former Employee or consultant of the Company of any terms or conditions of employment with Parent following the Closing.

(d) The Company has delivered to Parent accurate and complete copies in all material respects of all employee manuals and handbooks, employment policy statements and employment agreements.

(e) (i) None of the Employees have given the Company written notice terminating his or her employment with the Company or terminating his or her employment upon a sale of, or business combination relating to, the Company or in connection with the transactions contemplated by this Agreement; (ii) the Company does not have a present intention to terminate the employment of any current Employee; and (ii) except as set forth on Schedule 3.14(e), the Company is not, and nor has ever been, engaged in any dispute or litigation with an Employee regarding intellectual property matters.

(f) The Company is not presently, nor has it ever been in the past, a party to or bound by any union contract, collective bargaining agreement or similar contract. The Company does not know of any activities or proceedings of any labor union to organize any Employees.

(g) The Company is not engaged or has ever been engaged in any unfair labor practice of any nature, that, if adversely determined, would result in any material Liability to the

Company. There has never been any slowdown, work stoppage, labor dispute or union organizing activity, or any similar activity or dispute, affecting the Company or any Employees. There is not now pending and, to the Company's knowledge, no Person has threatened to commence, any such slowdown, work stoppage, labor dispute, union organizing activity or any similar activity or dispute.

(h) The Employees have been, and currently are, properly classified under the Fair Labor Standards Act of 1938, as amended, and under any similar Law of any state applicable to such employees. The Company is not delinquent to, or has failed to pay, any of its Employees, consultants or contractors for any wages (including overtime, meal breaks or waiting time penalties), salaries, commissions, accrued and unused vacation to which they would be entitled under applicable Law, if any, bonuses, benefits or other compensation for any services performed by them or amounts required to be reimbursed to such individuals. The Company is not liable for any payment to any trust or other fund or to any Governmental Entity, with respect to unemployment compensation benefits, social security or other benefits or obligations for Employees (other than routine payments to be made in the normal course of business and consistent with past practice).

(i) The Company has not an established severance pay practice or policy. Except as set forth in Schedule 3.14(i), (i) the Company is not liable for any severance pay, bonus compensation, acceleration of payment or vesting of any equity interest, or other payments (other than accrued salary, vacation, or other paid time off in accordance with the Company's policies) to any Employee arising from the termination of employment under any benefit or severance policy, practice, agreement, plan, program of the Company applicable Law or otherwise; and (ii) as a result of or in connection with the transactions contemplated hereunder or as a result of the termination by the Company of any Persons employed by the Company on or prior to the Closing Date, the Company will not have (x) any Liability that exists or arises under any Company's benefit or severance policy, practice, agreement, plan, program, Law applicable thereto, including severance pay, bonus compensation or similar payment, or (y) to accelerate the time of payment or vesting, or increase the amount of or otherwise enhance any benefit due any Employee. Accordingly, as of the Closing Date, the Company shall have satisfied in full all of its obligations to such Employees, consultants and/or contractors for any severance pay, accelerated vesting, or any other payments whatsoever.

(j) The Company is in compliance, in all material respects, with all applicable Laws, agreements, contracts and promises respecting employment, employment practices, employee benefits, terms and conditions of employment, immigration matters, labor matters, and wages and hours, in each case, with respect to its Employees.

(k) There are no claims pending or, to the Company's knowledge, threatened in writing, before any Governmental Entity by any Employees for compensation, pending severance benefits, vacation time, vacation pay or pension benefits, or any other claim threatened in writing or pending before any Governmental Entity (or any state "referral agency") from any Employee or any other Person arising out of the Company's status as employer, whether in the form of claims for employment discrimination, harassment, retaliation, unfair labor practices, grievances, wrongful discharge, breach of contract, unfair business practice, tort, unfair competition or otherwise. In addition, there are no pending or threatened in writing or claims or actions against the Company under any workers compensation policy or long-term disability policy.

(l) The Company and to the Company's knowledge each Employee, is in compliance with all applicable visa and work permit requirements.

(m) Schedule 3.14(m) sets forth (i) each plan or agreement of the Company pursuant to which any amounts may become payable (whether currently or in the future including upon any future end of employment) to Employees of the Company as a result of or in connection with transactions contemplated by this Agreement and (ii) a summary of the nature and amounts that may become payable pursuant to each such agreement.

3.15 Employee Benefit Plans.

(a) Schedule 3.15(a) sets forth each Company Employee Plan. The Company has not stated a plan or commitment to establish any new Company Employee Plan, to modify any Company Employee Plan (except to the extent required by Law or to conform any such Company Employee Plan to the requirements of any applicable Law, in each case as previously disclosed to Parent in writing, or as required by this Agreement), or to enter into any Company Employee Plan.

(b) Documents. The Company has delivered to Parent (i) correct and complete copies of each Company Employee Plan, including all amendments thereto; (ii) the most recent annual actuarial valuations, if any, prepared for each Company Employee Plan; (iii) the three most recent annual reports (Series 5500 and all schedules thereto), if any, required under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or the Code, or any similar Laws of other jurisdictions applicable to the Company in connection with each Company Employee Plan or related trust; (iv) if any Company Employee Plan is funded, the most recent annual and periodic accounting of Company Employee Plan assets; (v) the most recent summary plan description together with the most recent summary of material modifications, if any, with respect to each Company Employee Plan; (vi) all IRS determination, opinion, notification and advisory letters and rulings from the IRS or any similar Governmental Entity having jurisdiction over the Company relating to Company Employee Plans and copies of all applications and correspondence (including specifically any correspondence regarding actual or potential audits or investigations) to or from the IRS, United States Department of Labor ("DOL" or any other Governmental Entity with respect to any Company Employee Plan, (vii) all material written agreements and contracts relating to each Company Employee Plan, including fidelity or ERISA bonds, administrative service agreements, group annuity contracts and group insurance contracts; (viii) all communications material to any Employee or Employees relating to any Company Employee Plan and any proposed Company Employee Plans, in each case relating to any amendments, terminations, establishments, increases or decreases in benefits, acceleration of payments or vesting schedules or other events which would result in any material Liability to the Company and which are not reflected in the current summary plan description and plan document; (ix) all material forms and notices relating to the provision of post-employment continuation of health coverage; (x) all policies pertaining to fiduciary liability insurance covering the fiduciaries of each Company Employee Plan; (xi) all discrimination and qualification tests, if any, for each Company Employee Plan for the most recent plan year; and (xii) all registration statements, annual reports (Form 11-K or any similar form required under the Laws of other jurisdictions applicable to the Company and all attachments thereto) and prospectuses prepared in connection with each Company Employee Plan.

(c) Employee Plan Compliance. The Company has performed all material obligations required to be performed by it under each Company Employee Plan and each Company Employee Plan has been established and maintained in accordance with its terms and in compliance with all applicable Law, including ERISA and the Code. Each Company Employee Plan intended to qualify under Section 401(a) of the Code and each trust intended to qualify under Section 501(a) of the Code is so qualified and has either received a favorable determination letter or opinion letter from the IRS with respect to such Company Employee Plan as to its qualified status under the Code, including all amendments to the Code effected by the so called "GUST" and EGTRRA legislation, or has a period of time remaining under applicable Treasury regulations or IRS pronouncements in which to apply for and obtain such a letter. No non-exempt "prohibited transaction," within the meaning of Section 4975 of the Code or Section 406 of ERISA, has occurred with respect to any Company Employee Plan. There are no actions, suits or claims pending, or, to the knowledge of the Company, threatened in writing (other than routine claims for benefits) against any Company Employee Plan or fiduciary thereto or against the assets of any Company Employee Plan. Each Company Employee Plan can be amended, terminated or otherwise discontinued after the Closing in accordance with its terms, without Liability to the Company, Parent, Acquisition Corp. or any of its ERISA Affiliates (other than ordinary administration expenses typically incurred in a termination event. There are no audits, inquiries or proceedings pending or, to the knowledge of the Company, threatened by the IRS or DOL or any other similar Governmental Entity having jurisdiction over the Company with respect to any Company Employee Plan. All annual reports and other filings required by the DOL or the IRS or any other similar Governmental Entity having jurisdiction over the Company have been timely made. Neither the Company nor any ERISA Affiliate is subject to any penalty or Tax with respect to any Company Employee Plan under Section 501(i) of ERISA or Section 4975 through 4980D of the Code or any similar Laws of other jurisdictions applicable to the Company and no Company Employee Plan is sponsored or maintained by any Person that is or was considered to be a co-employer with the Company.

(d) Plan Status. Neither the Company nor any ERISA Affiliate now, or has ever, maintained, established, sponsored, participated in, or contributed to, any plan which is subject to Title IV of ERISA or Section 412 of the Code. Neither the Company nor any ERISA Affiliate has incurred, nor do they reasonably expect to incur, any Liability with respect to any transaction described in Section 4069 of ERISA. No Company Employee Plan is a multiple employer plan as defined in Section 210 of ERISA.

(e) Multiemployer Plans. At no time has the Company or any ERISA Affiliate contributed to or been requested to contribute to any "multiemployer plan", as defined in Section 3(37) of ERISA.

(f) No Post-Employment Obligations. Except as set forth on Schedule 3.15(f), no Company Employee Plan provides, or has any Liability to provide, life insurance, medical or other employee welfare benefits to any Employee upon his or her retirement or termination of employment for any reason, except as may be required by Law, and the Company

has never represented, promised or contracted (whether in oral or written form) to any Employee (either individually or to Employees as a group) that such Employee(s) would be provided with life insurance, medical or other employee welfare benefits upon their retirement or termination of employment, except to the extent required by Law.

(g) Funding of Plans. With respect to each Company Employee Plan for which a separate fund of assets is or is required to be maintained, full and timely payment has been made of all amounts required of the Company under the terms of each such Company Employee Plan or applicable Law, as applied through the Closing Date. The current value of the assets of each such Company Employee Plan, as of the end of the most recently ended plan year of that Company Employee Plan, equals or exceeded the current value of all benefits liabilities under that Company Employee Plan.

(h) Effect of Transaction. The execution and delivery by the Company of this Agreement and any related agreement to which the Company is a party, and the consummation of the transactions contemplated hereby and thereby, will not conflict with or result in any violation of or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation, modification or acceleration of any obligation or loss of any benefit under any Company Employee Plan, trust or loan that would reasonably be expected to result in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any Employee.

3.16 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 the Company's business, operations, properties or assets, except for any violation that would not have a Company Material Adverse Effect. Except as set forth on Schedule 3.16, the Company has not received any written notice alleging any such violation, and to the knowledge of the Company, there is no inquiry, investigation or proceeding relating thereto.

3.17 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 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 Parent and Acquisition Corp., after the Effective Time, of the properties and assets owned by, the business conducted by or the services rendered by the Company on the date hereof, in each case on substantially the same basis as the same are used, owned, conducted or rendered on the date hereof. The Company has in force, and is in compliance with, in all material respects, all material governmental permits, licenses, exemptions, consents, authorizations and approvals used in or required for the conduct of the Company's 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 written notice of, and to the knowledge of the Company, there are no inquiries, proceedings or investigations relating to or which could result in the revocation or modification of any such permit, license, exemption, consent, authorization or approval.

3.18 Major Customers. Schedule 3.18 hereto sets forth a complete and correct list of the ten (10) largest customers of the Company in terms of revenue recognized in respect of such customer during the one (1) month ended July 31, 2007, showing the amount of revenue recognized for each such customer during such period. To the knowledge of the Company, except as set forth on Schedule 3.18 hereto, the Company has not received any notice or other communication (written or oral) from any of the customers listed in Schedule 3.18 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 customer and the Company.

3.19 Insurance. 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 3.19 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 has no knowledge of any facts which would likely result in an insurer reducing coverage or increasing premiums on existing policies and to the Company's knowledge, all such insurance policies can be maintained in full force and effect without substantial increase in premium or reducing the coverage thereof following the Closing. There is no claim pending under any of such policies as to which coverage has been questioned, denied or disputed by the underwriters of such policy.

3.20 Brokers; Payments. Except as set forth on Schedule 3.20, 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. The Company has suspended or terminated, and has the legal right to terminate or suspend, all negotiations and discussions of Acquisition Transactions with parties other than Parent. No valid claim exists against the Company or, based on any action by the Company against the Parent or Acquisition Corp. for payment of any "topping," "break-up" or "bust-up" fee or any similar compensation or payment arrangement as a result of the transactions contemplated hereby.

3.21 Bank Accounts; Powers of Attorney. Schedule 3.21 hereto sets forth a complete and correct list showing:

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

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

3.22 Minute Books, etc. The minute books, stock records and other corporate records of the Company are complete and correct in all material respects, and complete and correct copies thereof have been delivered by the Company to the Parent. The minute books of the Company contain accurate and complete records of all meetings or written consents to action of the Board of Directors (and any committees thereof) and Shareholders of the Company and accurately reflect all corporate actions of the Company passed upon by the Board of Directors and Shareholders of the Company.

3.23 Interested Party Transactions.

(a) To the Company's knowledge, no Related Person has or has had, directly or indirectly, (i) an economic interest in any Person which furnished or sold, or furnishes or sells, services or products that the Company furnishes or sells, or proposes to furnish or sell, (ii) an economic interest in any Person that purchases from or sells or furnishes to, the Company any goods or services, or (iii) a beneficial interest in any agreement to which the Company is a party or by which it or its properties or assets are bound; provided, however, that ownership of no more than 1% of the outstanding voting stock of a publicly traded corporation shall not be deemed an "economic interest in any entity" for purposes of this Section 3.23.

(b) Except as set forth on Schedule 3.23(b), there are no receivables of the Company owed by any Related Person other than advances in the ordinary and usual course of business for reimbursable business expenses (as determined in accordance with the Company's established employee reimbursement policies and consistent with past practice). None of the Shareholders has agreed to, or assumed, any obligation or duty to guaranty or otherwise assume or incur any obligation or Liability of the Company.

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

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

3.26 Accounts Receivable. All accounts receivable of the Company reflected on the Balance Sheet (i) arose from bona fide transactions in the ordinary course of business and consistent with past practice, and (ii) are owned by the Company free and clear of any security interest, lien, encumbrance, or claims, and (iii) are accurately and fairly reflected on the Balance Sheet, or, with respect to accounts receivable of the Company created after June 30, 2007, are accurately and fairly reflected in the books and records of the Company. The Company reasonably believes that all such accounts receivable are good and collectible at the aggregate recorded amounts thereof, net of any applicable reserves for bad debts reflected on the Balance Sheet. Schedule 3.26 attached hereto sets forth a schedule of the Company's accounts receivable as of June 30, 2007.

3.27 Projections. The projections attached hereto as Schedule 3.27 (i) have been prepared by management of the Company in good faith, (ii) were based on assumptions believed by management of the Company to be reasonable in light of current conditions and current facts known at the time made and (iii) represent good faith estimates by management of the Company as to the financial performance of the Company for the periods indicated, but do not represent any guarantee or assurance of the future financial results of the Company (it being understood that such projections are subject to uncertainties and contingencies that are beyond the control of the Company and its management).

3.28 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 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 contains or will contain any untrue statement of a material fact or omits or will omit to state any material fact necessary to make the statements contained therein, in light of the circumstances under which they are made, not misleading.

ARTICLE IV

REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE SHAREHOLDERS

4.1 Authorization; etc. Each of the Shareholders severally represents and warrants to the Parent and Acquisition Corp. as follows:

(a) Each of the Shareholders is the sole and exclusive record and beneficial owner of the Common Stock set forth opposite his or her name in Schedule 4.1 hereto, free and clear of any claims, liens, pledges, options, rights of first refusal or other encumbrances or restrictions of any nature whatsoever (other than restrictions on transfer imposed under applicable securities laws), and there are no agreements, arrangements or understandings to which such Shareholder is a party (other than this Agreement) involving the purchase, sale or other acquisition or disposition of the Common Stock owned by such Shareholder;

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

(c) Such Shareholder 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 such Shareholder 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;

(d) The execution and delivery of this Agreement by each such Shareholder and the consummation of the transactions contemplated hereby will not (A) violate or conflict with any provision of any partnership agreement, operating agreement or other constitutional documents of each such Shareholder that is constituted as a general or limited partnership or limited liability company, (B) 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 Shareholder 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 Shareholder 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 Shareholder's ability to perform such Shareholder's obligations hereunder, or (C) violate or conflict with any law, statute, ordinance, code, rule, regulation, judgment, order, writ, injunction, decree or other instrument of any court or governmental or regulatory body, agency or authority applicable to such Shareholder or by which Common Stock held by such Shareholder may be bound.

(e) Effective upon the Closing, each such Shareholder voluntarily releases and discharges Parent and Acquisition Corp., their respective affiliates, subsidiaries, predecessors, successors and assigns, and each of them, and the current and former officers, directors, shareholders, employees, and agents of each of the foregoing (any and all of which are referred to as the "Parent Releasees"), from all charges, complaints, claims, promises, agreements, causes of action, damages, and debts of any nature whatsoever, known or unknown, which such Shareholder has, claims to have, ever had, or ever claimed to have had against the Company, Parent, Acquisition Corp. or any other Parent Releasees, whether arising under federal or state law and whether as a Shareholder or employee of the Company or in any other capacity; provided, however, such release shall not apply to any breach of this Agreement by any Parent Releasees or to any matter that arises after the Closing Date.

4.2 Parent Common Stock. Each of the Shareholders severally represents and warrants to the Parent and Acquisition Corp. as follows:

(a) Each of the Shareholders understands that the shares of Parent Common Stock to be issued to such Shareholder hereunder 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 Shareholders in this Agreement. Such Shareholder understands that the Parent is relying, in part, upon such Shareholder's representation and warranties contained in this Section 4.2 for the purpose of determining whether this transaction meets the requirements for such exemptions.

(b) Each of the Shareholders has such knowledge, skill and experience in business, financial and investment matters so that such Shareholder 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 Shareholder has deemed it appropriate to do so, such Shareholder 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.

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

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

(e) Each of the Shareholders understands that the shares of the Parent Common Stock to be received by the Shareholders in the transactions contemplated hereby will be "restricted securities" under applicable federal securities laws and that the Securities Act and the rules of the SEC promulgated thereunder provide in substance that the Shareholders 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 Shareholders further understands that applicable state securities laws may impose additional constraints upon the sale of securities. As a consequence, each of the Shareholders understands that such Shareholders may have to bear the economic risk of an investment in the Parent Common Stock to be received by such Shareholders pursuant to the transactions contemplated hereby for an indefinite period of time.

(f) Except as provided in Article XIII, each of the Shareholders 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.

(g) 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 V

REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE PARENT.

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

5.1 Corporate Organization. Parent is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Parent has all requisite power and authority to own, operate and lease the properties and assets it now owns, operates and leases and to carry on business as presently conducted by it. Parent is duly qualified to transact business as a foreign corporation and is 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 it or the business currently conducted by it, except for such jurisdictions where the failure to be so qualified would not have a Parent Material Adverse Effect. Parent 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 (as certified by the Secretary of State of Delaware as of a recent date) and its By-Laws (as certified by the Secretary of the Parent as of a recent date). Neither the Certificate of Incorporation nor the By-Laws of the Parent has 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.

5.2 Authorization. Parent has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution

and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly approved by the Board of Director of the Parent and no other corporate proceedings on the part of the Parent are necessary to approve and authorize the execution and delivery of this Agreement or (subject to the filing of the Certificates of Merger pursuant to the DGCL and the PBCL) the consummation of the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Parent and constitutes the valid and binding agreement of the Parent enforceable in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or in law).

5.3 Consents and Approvals; No Violations. Subject to (a) filing of the Certificates of Merger pursuant to DGCL and PBCL, and (b) compliance with applicable federal and state securities laws, the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not: (i) violate or conflict with any provisions of the Certificate of Incorporation or By-Laws of the Parent.; (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 is a party, or by which Parent or any of its 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 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 by which any of its 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, 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 or would impede or impair the ability of Parent to perform its respective obligations under this Agreement in any material respect.

5.4 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 5.4 shall also be deemed to be made with respect to all filings made with the SEC on or before the Effective Time.

5.5 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.

5.6 Disclosure. Parent has not failed to disclose to the Company any fact that is reasonably likely 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 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 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.

5.7 Validity of Shares. Assuming the accuracy of the representations and warranties contained in Article IV, the shares of Parent Common Stock to be issued as Restricted Equity Consideration 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 shareholders, 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 7.8 below.

ARTICLE VI

CONDUCT OF BUSINESS PRIOR TO THE EFFECTIVE TIME

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

(a) will carry on the Company's 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 Articles of Incorporation, except as expressly provided by this Agreement;

(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, except for the issuance of shares of Company Common Stock upon exercise of outstanding options in connection with the Closing;

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

(g) will not form any subsidiaries;

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

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

(j) will not adopt or amend any Company Employee 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 commencement of or threat comes to the knowledge of the Company) any claim, action, suit, proceeding or investigation against, relating to or involving the Company or any of its officers, employees, agents or consultants in connection with their businesses or the transactions contemplated hereby;

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

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

(o) will not 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 or loans 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) other than in the ordinary course;

(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 Parent’s consent which shall not be unreasonably withheld or delayed.

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

6.3 Other Negotiations. Neither the Company nor the Shareholders (nor will the Company permit any of its respective officers, directors, managers, consultants, employees, agents, shareholders and Affiliates on their behalf to) will 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 Company's business (any of the foregoing being referred to in this Agreement as an "Acquisition Transaction") or enter into an agreement concerning any Acquisition Transaction with any party other than Parent. If between the date of this Agreement and the termination of this Agreement pursuant to Article XI, the Company receives from a third party any offer to negotiate or consummate an Acquisition Transaction, the Company shall (i) notify Parent immediately (orally and in writing) of such offer, including the identity of such party and the terms of any proposal therein, and (ii) notify such third party of the obligations of the Company under this Agreement.

ARTICLE VII

ADDITIONAL AGREEMENTS

7.1 Access to Properties and Records. The Company will provide (or will cause to be provided) to Parent and Parent's accountants, counsel and other authorized advisors, with reasonable access, during business hours, to its premises and properties and its books and records (including, without limitation, contracts, leases, financial information, 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 the Company's business as Parent shall from time to time reasonably request. All of such data and information shall be kept confidential by Parent and the Company unless and until the transactions contemplated herein are consummated pursuant to the Confidentiality Agreement.

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

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

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

7.5 Fees and Expenses. The Parent and the Company shall bear and pay all of their own fees, costs and expenses relating to the transactions contemplated by this Agreement, including, without limitation, the fees and expenses of their respective counsel, accountants, brokers and financial advisors, except that if the Merger is consummated, then the Shareholders shall be responsible for the Acquisition Expenses which shall be paid by the Shareholders pro rata based on their percentage share of the Merger Consideration.

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

7.7 Tax Matters.

(a) S Election. The Company and Shareholders shall not revoke the Company's election to be taxed as an S corporation within the meaning of Code Sections 1361 and 1362. The Company and Shareholders shall not take or allow any action, other than the transactions contemplated by this Agreement, that would result in the termination of the Company as a validly electing S corporation within the meaning of Code Sections 1361 and 1362.

(b) 338(h)(10) Election.

(i) Election. Upon the written request of Parent, to be made, if at all, within sixty (60) days of the Closing Date, the Company and each Shareholder shall join with Parent in making an election under Section 338(h)(10) of the Code and similar provisions of state, local and foreign tax law (a "Section 338(h)(10) Election") with respect to the Merger. Parent shall be responsible for, and control, the preparation and filing of such forms or documents as are required by applicable law for an effective Section 338(h)(10) Election, including, but not limited to, IRS Form 8023 (the "Section 338(h)(10) Election Form"). Each Shareholder shall execute such Section 338(h)(10) Election Form as requested by Parent.

(ii) Purchase Price Allocation. The Merger Consideration and the liabilities of the Company (plus any other relevant items) will be allocated to the assets of the Company for all purposes (including tax and financial accounting purposes) in a manner consistent with the assets respective fair market values, as determined by Parent (the "Purchase Price Allocation"). Acknowledging that (A) a significant part of the Merger Consideration is being paid by Parent to acquire confidential information and

associated goodwill owned by the Company and not the Shareholders, but also that (B) such confidential information and goodwill is within the knowledge of the Shareholders, part of the consideration for the acquisition of the Company by Parent is an agreement by the Shareholders to certain non-competition restrictions on the Shareholders' ability to use such Company confidential information of which Shareholders have knowledge to compete with the Company, but no separate payment is being made to the Shareholders (and no amount shall be allocated as part of the Purchase Price Allocation) with respect to such non-competition agreement. The Parent, Company and the Shareholders agree and acknowledge that the consideration paid to the Shareholders for such non-compete agreements consists of the Restricted Equity Consideration and such other amounts as may be payable to the Shareholders under their respective employment agreements with the Company and/or Parent. The Parent, Company and the Shareholders shall file all Tax Returns (included amended returns and claims for refund) and information reports in a manner consistent with the Purchase Price Allocation.

(iii) Indemnification. (A) Parent shall indemnify and hold harmless each Shareholder from and against any Increased Taxes resulting from any Section 338(h)(10) Election. "Increased Taxes" means the amount by which the Taxes the Shareholders and the Company are required to pay as a result of the Section 338(h)(10) Election exceeds the Taxes the Shareholders and the Company would be required to pay in respect of the Shareholders' exchange of Company stock for the Merger Consideration in the absence of such Section 338(h)(10) Election, but shall not include any Tax imposed on the Company or its subsidiaries attributable to the making of the Section 338(h)(10) Election which are imposed under Code Section 1374. For purposes of clarification, Parent's indemnity shall include any additional foreign, state and local income, sales or other tax liability imposed on the Shareholders or the Company (including taxes imposed on the receipt of any Gross Up Payments) other than any tax imposed under Code Section 1374.

(B) Except in the case of an Increased Tax Dispute Notice, indemnification under clause (A) above shall be made by payment to each Shareholder in cash of the amount of such Shareholder's Increased Taxes plus a Gross Up Payment within twenty (20) days of the delivery by such Shareholder to Parent of a claim (an "Increased Tax Indemnity Claim") for indemnification hereunder (the "Claim Payment Due Date"). An Increased Tax Indemnity Claim shall include a detailed explanation of the calculation of the Increased Taxes and Gross Up Payment, which calculations shall be prepared by a certified public accountant of such Shareholder's choosing.

(C) In the event that Parent disputes the existence or amount of Increased Taxes or Gross Up Payment set forth on an Increased Tax Indemnity Claim, Parent shall notify the Shareholder submitting such Increased Tax Indemnity Claim of such dispute (an "Increased Tax Dispute Notice") and Parent and the Shareholder shall negotiate in good faith to resolve such dispute. If such dispute remains unresolved thirty (30) days after the date of the Increased Tax Dispute Notice, the existence and amount of any Increased Taxes and Gross Up Payment with respect to such Shareholder shall be determined by a certified public accountant appointed by, and mutually agreeable to each of, the Parent and the Shareholder within ten (10) days of the expiration of the preceding thirty (30) day resolution period. Such certified public

accountant's determination of the amount of Increased Taxes and Gross Up Payment shall be binding upon Parent and the Shareholder, and Parent shall pay to the Shareholder the amount of such Increased Taxes and Gross Up Payment, in cash, immediately upon such certified public accountant's delivery to Parent of such determination.

(D) For purposes of hereof, a "Gross Up Payment" shall mean, with respect to each Shareholder, a payment by Parent to such Shareholder of an additional amount such that, after paying all federal, state and local income taxes attributable solely to the receipt of the Gross Up Payment, the Shareholder has received a net after tax amount equal to the Increased Taxes.

(E) Any payment of Increased Taxes and Gross Up Payment properly due and payable from Parent to a Shareholder hereunder that remains unpaid shall reduce, on a dollar-for-dollar basis, any amount for which such Shareholder may otherwise be liable under Article XII of this Agreement.

(F) Any payment made by the Parent under this Section 7.8(b)(iii) shall be treated by the Parent, Company and Shareholders as the payment of additional Merger Consideration for Tax purposes and no party shall file any return or make any report to any Tax authority inconsistent with such characterization.

(c) S Corporation Income Tax Returns. The Primary Shareholders shall prepare or cause to be prepared and file or cause to be filed all S corporation income Tax Returns for the Company for all periods ending on or prior to the Closing Date which are filed after the Closing Date. The Primary Shareholders shall permit Parent to review and comment on each such Tax Return described in the preceding sentence prior to filing, and shall make such changes to such Tax Returns as are reasonably requested by Parent. The Shareholders shall include any income, gain, loss, deduction, or other tax item resulting from the Section 338(h)(10) Election on their Tax Returns to the extent required by applicable law. The Shareholders shall also pay any Tax imposed on the Company or its subsidiaries attributable to the making of the Section 338(h)(10) Election, imposed under Code Section 1374.

(d) Conduct of Business. From the date hereof until the Effective Time, the Company shall not make or change any material election in respect of Taxes, adopt or change any accounting method in respect of Taxes, enter into any closing agreement, settle any claim or assessment in respect of Taxes, or consent to any extension or waiver of the limitation period applicable to any claim or assessment in respect of Taxes, except with the prior written consent of Parent.

(e) Transfer Taxes. All transfer, documentary, sales, use, stamp, registration and other such Taxes and fees (including any penalties and interest thereon) incurred in connection with the transactions contemplated by this Agreement shall be paid by the Shareholders when due, and the Shareholders will, at their own expense, file all necessary Tax Returns and other documentation with respect to all such transfer, documentary, sales, use, stamp, registration and other Taxes and fees, and, if required by applicable Law, Parent will join in the execution of any such Tax Returns and other documentation. At Parent's discretion, the amount paid to any Person pursuant to this Agreement will be reduced by the amount of Taxes payable by such Person pursuant to this Section 7.7(e). Any amount so withheld will be promptly remitted to the appropriate Tax Authority.

(f) Tax Returns. The Company will promptly provide or make available to Parent copies of all Tax Returns, reports and information statements that are filed after the date of this Agreement and prior to the Closing Date.

(g) Tax Contests. Notwithstanding any of the foregoing, Parent will have the right to conduct any Tax audit or other Tax contest relating to the Surviving Corporation.

7.8 Restricted Stock Grants. Immediately after the Closing, Parent agrees to issue to certain Employees the aggregate amount of Parent Common Stock as shall be obtained by dividing $7,050,000 by the Closing Market Price as provided in Schedule 7.8 and such shares shall be subject to vesting as provided herein (the "Restricted Equity Consideration"). Such Employees shall be collectively referred to as the "Employee Shareholders." With respect to the shares of Restricted Equity Consideration, such shares shall vest hereunder as follows: 20.0% on the six (6) month anniversary of the Closing Date (the "Initial Vesting 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 (24) months. Fifty percent (50.0%) of the shares of Restricted Equity Consideration not already vested shall become immediately vested in the event of a Change of Control during the first twelve (12) months following the Closing Date and one hundred percent (100.00%) of the shares of Restricted Equity Consideration not already vested shall become immediately vested in the event of a Change of Control at any time thereafter. While the shares of Restricted Equity Consideration are subject to vesting pursuant to this Section 7.8, the Employee Shareholders 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 such Employee Shareholders shall not have the right to possession and sale thereof. The parties agree that the Restricted Equity Consideration is being issued in connection with services to be performed by the Employee Shareholders post-Closing and shall be subject to income and employment tax withholding at the time when such Restricted Equity Consideration is no longer subject to substantial risk of forfeiture. Notwithstanding Section 1.8 above, such income and employment tax withholding shall not be satisfied out of Merger Consideration except with respect to an Employee Shareholder who makes an election under Section 83(b) or the Code related to the Restricted Equity Consideration.

7.9 Repurchase Right.

(a) In the event that an Employee Shareholder'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 all or any portion of the shares of Restricted Equity Consideration that are not already vested (after giving effect to the acceleration provided for in Section 7.8, if applicable), 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 Shareholder by providing written notice to such

Employee Shareholder 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 Shareholder, 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.

7.10 Financial Statements. At the request of the Parent at any time following the Closing, the Shareholders shall use their reasonable best efforts and shall cooperate to facilitate an audit by Parent'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 Shareholders shall promptly deliver a customary management representation letter in connection with the completion of such Audit. The Shareholders 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 Parent's independent auditor to include such auditor's report on the foregoing in any and all Parent SEC filings. In the event of a breach of this Section 7.10 by the Shareholders, Parent shall be entitled to disbursement to it of the entire amount of the Cash Escrow and the Stock Escrow.

7.11 Termination of Shareholder Voting Agreements. The Company shall take all such steps as may be necessary to (i) terminate, as of the Closing, each of the Shareholder Voting Agreements and all other investor rights granted by the Company to its Shareholders and in effect prior to the Closing, including rights of co-sale, voting, registration, first refusal, board observation or information or operational covenants, and (ii) deliver all required notifications of the transactions contemplated hereby to the Shareholders of Company Common Stock and Company Stock Rights.

7.12 Exercise and Termination of Company Stock Rights.

(a) Promptly after the date of this Agreement, the Company shall deliver proper notice to each holder of a Company Option pursuant to the Company Option Plan informing such holder of the effect of the transactions contemplated herein on the Company Options. Prior to the Closing, the Company shall take all action necessary to (i) terminate the Company Option Plan, and (ii) terminate or cause to be exercised in full each Company Option still outstanding as of immediately prior to the Closing.

(b) The Company shall take all action necessary to ensure that all Company Stock Rights are either (i) exercised in full and the exercise price with respect thereto is delivered to the Company in cash or by check prior to the Closing or (ii) terminated as of immediately prior to the Closing.

7.13 Resignation of Officers and Directors. The Company shall obtain the resignations of all officers and directors of the Company as Parent designates in writing, effective as of the Effective Time.

ARTICLE VIII

COVENANTS OF THE PRINCIPAL SHAREHOLDERS

Each of the Ari Jacoby and Todd Lieberman (together, the "Principal Shareholders") hereby agrees that for a period of two (2) years following the Closing Date, that he will not, directly or indirectly, alone or as a partner, officer, director, employee, consultant, agent, independent contractor or shareholder of any company or business organization, engage in any business activity, or have a financial interest in any business activity involving business to business and business to consumer pay per call technologies, media call tracking and analytics (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) ("Competitive Activity"). Each of the Principal Shareholders 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 any of the employees, consultants, agents, suppliers, customers or prospects of the Company that were such with respect to the Company at any time during the one (1) year immediately preceding the date hereof or that become such with respect to the Parent at any time during the one (1) year immediately following the date hereof. Such Principal Shareholder's obligations under this Article VIII shall survive termination of cessation of his, her or its employment or consultancy with the Company (if applicable).

ARTICLE IX

CONDITIONS TO THE OBLIGATIONS OF
THE PARENT AND ACQUISITION CORP.

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

9.1 Representations and Warranties True. The representations and warranties of the Company 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, provided that those representations and warranties that address matters only as of a particular date shall remain true and correct as of such date as if made at and as of such date, and except for (a) changes expressly contemplated by this Agreement, and (b) where the failure to be so true and correct has not had, and would not reasonably be expected to have a Company Material Adverse Effect (i) the Company shall have delivered to the Parent and Acquisition Corp. a certificate (signed on behalf of the Company by the Chief Executive Officer of the Company) to that effect with respect to all such representations and warranties made by the Company, and (ii) the Primary Shareholders shall have executed and delivered to the Parent and Acquisition Corp. a certificate to that effect with respect to all such representations and warranties made by the Primary Shareholders.

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

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

9.4 Consents. All approvals, consents, licenses, permits, orders, waivers and authorizations required to be obtained by the Company or the Primary Shareholders in connection with the Merger and the transactions contemplated by this Agreement as set forth on Schedule 9.4 attached hereto shall have been obtained and shall be in full force and effect.

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

(a) Executive Employment Agreements, in the form attached hereto as Exhibit E, executed by each of Ari Jacoby and Todd Lieberman;

(b) 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;

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

(d) the Company shall have delivered to the Parent and to the IRS notices that the Stock is not a “U.S. Real Property Interest” in accordance with the Treasury Regulations under Sections 897 and 1445 of the Code, or (ii) each of the Shareholders 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;

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

(f) resignations of all officers and directors of the Company as of the Effective Time; and

(g) a general release in form satisfactory to the Parent of the Company, Parent and their respective Affiliates executed by Everett Wallace (the "Release").

9.6 Shareholder Approval; Dissenter's Rights. Shareholders holding at least 100% of the outstanding shares of Company Common Stock shall have approved this Agreement, and the transactions contemplated hereby and thereby. None of the Shareholders shall have exercised, or have continuing rights to exercise, appraisal or dissenters' rights under the PBCL with respect to the transactions contemplated by this Agreement.

9.7 Delivery of Certificates for Cancellation. The certificates representing 100% of the shares of Company Common Stock issued and outstanding immediately prior to the Effective Time, shall have been surrendered for cancellation accompanied by duly executed letters of transmittal.

9.8 Certificates of Merger. The Company shall have executed and delivered to the Parent counterparts of the Certificates of Merger to be filed with the Secretary of State of the State of Delaware and Secretary of State of the Commonwealth of Pennsylvania in connection with the Merger.

9.9 Termination. The Company shall have terminated each of those agreements listed on Schedule 9.9 to this Agreement and each such agreement shall be of no further force or effect.

9.10 Supporting Documents. The Company shall have delivered to the Parent a certificate (i) of the Secretary of State of the Commonwealth of Pennsylvania 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 Articles 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 Shareholders of the Company, authorizing the execution, delivery and performance of this Agreement and the consummation of the Merger; and (z) to the incumbency and specimen signature of each officer of the Company, executing on behalf of the company this Agreement and the other agreements related hereto.

9.11 Release of Liens. The Company shall have obtained to the satisfaction of Parent, the releases from creditors needed to terminate any security interests in any assets of the Company granted by the Company.

ARTICLE X

CONDITIONS TO THE OBLIGATIONS OF THE
COMPANY AND THE SHAREHOLDERS

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

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

10.2 Performance. The Parent and Acquisition Corp. shall have performed and complied in all material respects with all of the obligations under this Agreement which are required to be performed or complied with by them on or prior to the Closing Date, and at the Closing the Parent and Acquisition Corp. shall have delivered to the Company and Shareholders a certificate (with respect to Parent, signed on its behalf by its Chief Executive Officer and with respect to Acquisition Corp. signed on its behalf by its President) to that effect with respect to all such obligations required to have been performed or complied with by such entity on or before the Closing Date.

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

10.4 Consents. All approvals, consents, licenses, permits, orders, waivers and authorizations required to be obtained by Parent and/or Acquisition Corp. in connection with the Merger and the transactions contemplated by this Agreement (including those identified on Schedule 5.3, if any) shall have been obtained and shall be in full force and effect.

10.5 Additional Agreements. The Parent shall have executed and delivered counterparts of the Executive Employment Agreements referred to in Section 9.5(a) hereof and the Escrow Agreement referred to in Section 9.5(c) hereof, together with counterparts signed by the Escrow Agent.

10.6 Merger Consideration; Escrow Deposit.

(a) At the Closing, the Parent shall deliver and Escrow Agent shall distribute the Merger Consideration in accordance with Section 2.3.

(b) At Closing, Parent shall deliver to the Escrow Agent the Cash Escrow at Closing by wire.

10.7 Certificates of Merger. The Company shall have executed and delivered to the Parent counterparts of the Certificates of Merger to be filed with the Secretary of State of the State of Delaware and Secretary of State of Commonwealth of Pennsylvania in connection with the Merger.

10.8 Supporting Documents.

(a) The Parent shall have delivered to the Company and the Shareholders (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 (ii) a certificate of the Secretary of the Parent, dated the Closing Date, certifying on behalf of the Parent (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 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 authorizing the execution, delivery and performance of this Agreement and the consummation of the Merger; and (z) to the incumbency and specimen signature of each officer of the Parent executing on behalf of Parent this Agreement and the other agreements related hereto.

(b) Acquisition Corp. shall have delivered to the Company and the Shareholders (i) a certificate of the Secretary of State of the State of Delaware dated as of the Closing Date, certifying as to the legal existence and good standing of Acquisition Corp., (ii) a certificate of the Secretary of Acquisition Corp., dated the Closing Date, certifying on behalf of Acquisition Corp. (x) that attached thereto is a true and complete copy of the By-Laws of such Acquisition Corp. as in effect on the date of such certification; (y) that attached thereto is a true and complete copy of all resolutions adopted by the sole director and sole stockholder of such Acquisition Corp. authorizing the execution, delivery and performance of this Agreement and the consummation of the Merger; and (z) to the incumbency and specimen signature of each officer of Acquisition Corp. executing on behalf of Acquisition Corp. this Agreement and the other agreements related hereto.

ARTICLE XI

TERMINATION

11.1 Termination. This Agreement may be terminated at any time prior to the Effective Time:

(a) by the written consent of the Company and the Parent;

(b) by either the Company or the Parent:

(i) if any court or governmental or regulatory agency, authority or body shall have enacted, promulgated or issued any statute, rule, regulation, ruling, writ or injunction, or taken any other action, restraining, enjoining or otherwise prohibiting the transactions contemplated hereby and all appeals and means of appeal therefrom have been exhausted; or

(ii) if the Effective Time shall not have occurred on or before October 1, 2007; 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 (i) 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, and (ii) has a Material Adverse Effect on the Company.

(c) by the Parent if the Company is unable to deliver the Release at Closing.

11.2 Effect of Termination. In the event of termination of this Agreement, this Agreement shall forthwith become void and there shall be no Liability on the part of any of the parties hereto or (in the case of the Company, the Parent and Acquisition Corp.) their respective officers or directors, except for Sections 2.8, 2.9, 7.5, 11.3 and 14.6, and the last sentence of Section 7.1, which shall remain in full force and effect, and except that nothing herein shall relieve any party from Liability for a breach of this Agreement prior to the termination hereof. The obligations of the Confidentiality Agreement shall remain in full force and effect and shall survive any termination or expiration of the Agreement.

11.3 Termination Fee. If Parent or the Company shall have terminated this Agreement pursuant to Section 11.1(b), Parent shall pay to Company a fee of $3,500,000 (the "Break-Up Fee"), except if due to an intentional misrepresentation or omission, fraud or willful misconduct of the Company or a Company Affiliate.

ARTICLE XII

INDEMNIFICATION; SURVIVAL OF REPRESENTATIONS AND WARRANTIES

12.1 Indemnity Obligations. (a) Subject to Sections 12.3 and 12.4 hereof, each of the Shareholders by adoption of this Agreement and approval of the transactions contemplated hereby, jointly and severally agree to indemnify and hold the Parent (including its representatives and Affiliates) harmless from, and to reimburse the Parent for, any Losses 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 set forth in Article III of this Agreement or any Schedule or certificate delivered by the Company pursuant hereto; and (ii) any breach or nonfulfillment of, or any failure to perform, any of the covenants, agreements or undertakings of the Company and the Shareholders which are contained in this Agreement or any agreement entered into in connection herewith including, without limitation, the covenants set forth in Article VIII of this Agreement.

(b) Subject to Sections 12.3 and 12.4 hereof, each of the Shareholders by adoption of this Agreement and approval of the Merger, severally and not jointly agree to indemnify and hold the Parent (including its 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 Shareholder set forth in Article IV of this Agreement, or any Schedule or certificate delivered by the respective Shareholder 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 Shareholder which are contained in this Agreement or any agreement entered into in connection herewith, including, without limitation, the covenants set forth in Article VIII of this Agreement.

12.2 Notification of Claims.

(a) Subject to the provisions of Section 12.3 below, in the event of the occurrence of an event pursuant to which the Parent shall seek indemnity pursuant to Section 12.1, the Parent shall provide the Shareholders and, if such indemnity is sought against a Shareholder pursuant to Section 12.1(b), the Shareholder against whom indemnification is sought, with prompt written notice (a "Claim Notice") of such event and shall otherwise promptly make available to the Shareholders, and if applicable such Shareholder, 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 Shareholders, and if applicable such Shareholder, with any relevant data and documents in connection with any Third-Party Claim 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 Shareholders and, if such indemnity is sought against a Shareholder pursuant to Section 12.1(b), the Shareholder against whom indemnification is sought, 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 Shareholders or, if applicable, such Shareholder, shall be borne by the Shareholders with respect to indemnification sought pursuant to Section 12.1(a) and by the Shareholders against whom indemnification is sought with respect to indemnification sought pursuant to Section 12.1(b); provided, such expenses shall be paid from the Escrow Deposit for indemnification sought pursuant to Section 12.1(a) and from the Pro Rata Portion of the Escrow Deposit attributable to the Shareholders against whom indemnification is sought pursuant to Section 12.1(b). 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 Shareholders, or, if applicable, the Shareholder, which consent shall not be unreasonably withheld. In the event that the Shareholders, or, if applicable, the Shareholder, has consented in writing to any such settlement, adjustment or compromise, the Shareholders shall have no power or authority to object to the amount of any claim by Parent against the Escrow Deposit for indemnification of Losses with respect to such settlement, adjustment or compromise.

(c) Notwithstanding the other provisions of this Section 12.2, if a third party asserts (other than by means of a lawsuit) that Parent or Surviving Corporation is liable to such third party for a monetary or other obligation for which Parent expects to seek indemnification pursuant to this Article XII, 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 Shareholders, (ii) Parent may subsequently make a claim for indemnification in accordance with the provisions of this Article XII, and (iii) Parent shall be reimbursed, in accordance with the provisions of this Article XII, for any such Losses for which it is entitled to indemnification pursuant to this Article XII (subject to the right of the Shareholders to dispute the Parent's entitlement to indemnification, or the amount for which it is entitled to indemnification, under the terms of this Article XII).

12.3 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 and also as provided in the immediately following sentence, all Indemnifiable Matters shall expire on the one (1) year anniversary of the Closing Date (the "Escrow Release Date"). Notwithstanding the foregoing, (a) Indemnifiable Matters arising from breaches of the covenants contained in Article VIII shall survive the Closing Date until the two (2) year anniversary of the Closing Date; (b) Indemnifiable Matters arising from breaches of the representations and warranties set forth in Sections 3.1, 3.2, 3.3, 3.4 and 3.16 and Article IV, 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 3.12 shall survive the Closing Date until the three (3) year anniversary of the Closing Date (the "Section 3.12 Indemnifiable Matters"); and (d) Indemnifiable Matters arising from breaches of the representations and warranties set forth in Section 3.10 and the covenant contained in Section 7.7 shall survive the Closing Date until the six (6) year anniversary of the Closing Date (all such obligations in (a), (b), (c) 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.

12.4 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 agrees that the right to indemnification pursuant to this Article XII shall constitute Parent's sole and exclusive remedy and recourse against the Shareholders for Losses attributable to any Indemnifiable Matters. Except with respect to the Excluded Obligations the maximum aggregate liability of any Shareholder individually shall be limited to such Shareholder's Pro Rata Portion of the Escrow Deposit and the maximum aggregate liability of the Shareholders collectively for the Excluded Obligations (other than the Section 3.12 Indemnifiable Matters) shall be limited to the Cash Consideration (and for the

Employee Shareholders also the value of the Restricted Equity Consideration) and of any Shareholder individually for the Excluded Obligations (other than the Section 3.12 Indemnifiable Matters) shall be limited to such Shareholder's Pro Rata Portion of the Losses up to the aggregate amount of the Cash Consideration which such Shareholder is entitled (and for an Employee Shareholder the value of his share of the Restricted Equity Consideration). The maximum aggregate liability of the Stockholders for the Section 3.12 Indemnifiable Matters shall be limited as follows: (a) for Section 3.12 Indemnifiable Matters arising during the period beginning on the Closing Date and continuing until the twelve (12) month anniversary of the Closing Date, the maximum liability of each Stockholder shall be limited to such Stockholder's Pro Rata Portion of Five Million Dollars ($5,000,000), (b) for Section 3.12 Indemnifiable Matters arising during the period beginning on the day after the twelve (12) month anniversary of the Closing Date and continuing until the eighteen (18) month anniversary of the Closing Date, the maximum liability of each Stockholder shall be limited to such Stockholder's Pro Rata Portion of Four Million Dollars ($4,000,000), (c) for Section 3.12 Indemnifiable Matters arising during the period beginning on the day after the eighteen (18) month anniversary of the Closing Date and continuing until the twenty-four (24) month anniversary of the Closing Date, the maximum liability of each Stockholder shall be limited to such Stockholder's Pro Rata Portion of Three Million Dollars ($3,000,000), (d) for Section 3.12 Indemnifiable Matters arising during the period beginning on the day after the twenty-four (24) month anniversary of the Closing Date and continuing until the thirty (30) month anniversary of the Closing Date, the maximum liability of each Stockholder shall be limited to such Stockholder's Pro Rata Portion of $Two Million Dollars ($2,000,000), and (e) for Section 3.12 Indemnifiable Matters arising during the period beginning on the day after the thirty (30) month anniversary of the Closing Date and continuing until the thirty six (36) month anniversary of the Closing Date, the maximum liability of each Stockholder shall be limited to such Stockholder's Pro Rata Portion of One Million Dollars ($1,000,000). For the purposes of this Agreement, "Pro Rata Portion" of a Shareholder as to any Losses or as to the Escrow Deposit shall be equal to the percentage of the Merger Consideration to which such Shareholder is entitled as set forth on Schedule 2.3. For purposes of Article XII, the Restricted Equity Consideration shall be valued (irrespective of vesting) based on the Closing Market Price, and as to shares not yet vested pursuant to Section 7.8 the Employee Shareholders' liability with respect thereto shall be limited to forfeiting such unvested shares.

12.5 Registration Rights. The provisions of Section 13.5 hereof and not this Article XII shall govern any claim for indemnification pursuant to Article XIII.

12.6 Limitations. Notwithstanding anything to the contrary contained herein, the Shareholders shall have no liability for indemnification pursuant to this Article XII for Indemnifiable Matters arising from breaches of any representations and warranties set forth in Article III until the aggregate Losses are in excess of $100,000, at which point the Shareholders shall only be liable for the amount of the Losses in excess of such amount.

12.7 No Contribution. The Shareholders hereby waive, acknowledge and agree that the Shareholders 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, Acquisition Corp. or Surviving Corporation in connection with any indemnification payments which the Shareholders are required to make under this Article XII. Nothing in this Article XII shall limit a Shareholder's right of contribution or right of indemnity from another Shareholder.

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

ARTICLE XIII

REGISTRATION RIGHTS

13.1 Registrable Shares. For purposes of this Agreement, "Registrable Shares" shall mean the shares of Parent Common Stock issued as the Restricted Equity Consideration and for purposes of this Article XIII as well as Section 4.2 the term "Shareholders" shall mean the Employee Shareholders.

13.2 Required Registration. Parent shall use reasonable best efforts to 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") within thirty (30) days of the Closing Date 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 Shareholders 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).

13.3 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 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 Shareholders 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, provided that the Restricted Equity Consideration may only be offered and sold to the extent vested pursuant to Section 7.8.

(c) Notwithstanding any other provision of this Article XIII, Parent shall have the right at any time to require that the Shareholders 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 Shareholders written notice of any such suspension and will use its best efforts to minimize the length of the suspension.

13.4 Expenses. The costs and expenses to be borne by Parent for purposes of this Article XIII shall include, without limitation, printing expenses (including a reasonable number of prospectuses for circulation by the Shareholders), 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 Shareholders.

13.5 Indemnification.

(a) To the extent permitted by Law, Parent will indemnify and hold harmless the Shareholders, any underwriter (as defined in the Securities Act) for the Shareholders, its officers, directors, shareholders or partners and each Person, if any, who controls the Shareholders 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 Shareholders, 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 13.5(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 Shareholders expressly for use in the Registration Statement, or (ii) a Violation that would not have occurred if the Shareholders had delivered to the purchaser the version of the Prospectus most recently provided by Parent to the Shareholders as of a date prior to such sale.

(b) To the extent permitted by Law, each Shareholder 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 Shareholder to comply with the prospectus delivery requirements under the Securities Act, and the failure of such Shareholder 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 Shareholder expressly for use in the Registration Statement or such Violation is caused by such Shareholder's failure to deliver to the purchaser of such Shareholder's Registrable Shares a prospectus (or amendment or supplement thereto) that had been made available to the Shareholders by Parent prior to the date of the sale; and such Shareholder will pay any legal or other expenses reasonably incurred by any Person intended to be indemnified pursuant to this Section 13.5(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 13.5(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 Shareholder, which consent shall not be unreasonably withheld. The aggregate indemnification and contribution Liability of such Shareholder under this Section 13.5(b) shall not exceed the net proceeds received by such Shareholder in connection with sale of shares pursuant to the Registration Statement.

(c) Each Person entitled to indemnification under this Section 13.5 (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 13.5 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 13.5 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.

13.6 Procedures for Sale of Shares Under Registration Statement.

(a) Notice and Approval. If a Shareholder shall propose to sell 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 Shareholder 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 Shareholder 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 Shareholder 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 Shareholder 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 Shareholder in a transaction that is not exempt under the Securities Act, such Shareholder, 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 Shareholders 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 13.6, when a Shareholder 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 Shareholder 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 Shareholder 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 XIV

MISCELLANEOUS PROVISIONS

14.1 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.

14.2 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.

14.3 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 14.3):

(a) if to the Company or the Shareholders, to:

VoiceStar, Inc.
1315 Walnut Street, Suite 1532
Philadelphia, PA 19107
Attention: Todd Lieberman, Chief Executive Officer

with copies to:

Gunderson Dettmer
155 Constitution Drive
Menlo Park, CA 94025
Attention: Ivan A. Gaviria, Esq.

(b) if to the Parent or Acquisition Corp., to:

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

with copies to:

DLA Piper 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.

14.4 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.

14.5 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 XII.

14.6 Public Announcements. Promptly after the Effective Time, 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.

14.7 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.

14.8 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.

14.9 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 mutual confidentiality and non-disclosure agreement entered into between the Parent and the Company dated July 17, 2007 (the "Confidentiality Agreement"). This Agreement supersedes all other prior agreements and understandings, written or oral, between the parties with respect to such subject matter, other than the Confidentiality Agreement (subject to the disclosure requirements of any applicable Laws and/or governmental regulations).

14.10 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.

14.11 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.

14.12 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.

14.13 Construction. The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state or local statute or Law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word “including” shall mean including without limitation. Wherever required by the context, as used in this Agreement, the singular number shall include the plural, the plural shall include the singular and all words herein in any gender shall be deemed to include the masculine, feminine and neutral genders. The parties hereto intend that each representation, warranty, and covenant contained herein shall have independent significance. If any party has breached any representation, warranty, or covenant contained herein in any respect, the fact that there exists another representation, warranty, or covenant relating to the same subject matter (regardless of the relative levels of specificity) which such party has not breached shall not detract from or mitigate the fact that such party is in breach of the first representation, warranty, or covenant.

14.14 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.

ARTICLE XV

DEFINITIONS

15.1 Certain Definitions. As used in this Agreement, the following terms shall have the meanings indicated below:

"***Acquisition Corp***." has the meaning set forth in Article 1.1 of this Agreement.

"Acquisition Expenses" means all fees and expenses accrued or incurred by the Company in connection with the Merger or the other transactions contemplated by this Agreement, including all legal, accounting, investment banking (including fees to the Persons set forth on Schedule 3.20 and the expenses provided for in Section 7.5), tax and financial advisory and all other fees and expenses of third parties accrued or incurred in connection with the negotiation and effectuation of the terms and conditions of this Agreement and the transactions contemplated hereby.

"***Acquisition Transaction***" has the meaning set forth in Article 6.3 of this Agreement.

"***Acts***" means the Securities Act and Exchange Act collectively.

"***Affiliate***" means, with respect to the Person to which it refers, a Person that directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with, such Person.

"***Audit***" has the meaning set forth in Article 7.10 of this Agreement.

"***Balance Sheet***" has the meaning set forth in Article 3.6 of this Agreement.

"***Break-Up Fee***" has the meaning set forth in Article 11.3 of this Agreement.

"Cash Consideration" has the meaning set forth in Article 2.1 of this Agreement.

"Certificates of Merger" has the meaning set forth in Article 1.2 of this Agreement.

"***Change of Control***" means (x) an event when any "person", as such term is used in Sections 13(d) and 14(d) of the Exchange Act, except for an existing shareholder 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 shareholders 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 a Change of Control shall occur upon a Change of Control of such wholly-owned subsidiary.

"***Claim Notice***" has the meaning set forth in Article 12.2 of this Agreement.

"***Claim Payment Due Date***" has the meaning set forth in Article 7.7 of this Agreement.

"***Closing***" has the meaning set forth in Article 2.1 of this Agreement.

"***Closing Date***" has the meaning set forth in Article 1.2 of this Agreement.

"***Closing Market Price***" means the average of (a) the average of 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, and (b) the average of the last quoted sale price for shares of Parent Common Stock on The Nasdaq National Market for the ten (10) trading days immediately prior to the date of this Agreement.

"***Code***" has the meaning set forth in the preamble to this Agreement.

"Common Stock" means shares of Company Common Stock, $0.00001 par value per share.

"***Company***" has the meaning set forth in the preamble to this Agreement.

"***Company Disclosure Schedules***" has the meaning set forth in the preamble to Article II of this Agreement.

"***Company Employee Plan***" means any plan, program, policy, practice, contract, agreement or other arrangement (written or oral) providing for deferred compensation, profit sharing, bonus, severance, termination pay, performance awards, stock or stock-related awards, fringe benefits, welfare, pension or other employee benefits or remuneration of any kind, whether formal or informal, funded or unfunded, including each "employee benefit plan" within the meaning of Section 3(3) of ERISA, which is or has been maintained, contributed to, or required to be contributed to, by the Company or ERISA Affiliates for the benefit of any Employee, or pursuant to which the Company has or may have any material Liability, contingent or otherwise.

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

"***Company Material Adverse Effect***" means any event, change, violation, inaccuracy, circumstance or effect that, individually or in the aggregate, (a) has had or would reasonably be expected to have a material adverse effect on, or result in a material adverse change in, as the case may be, the business, operations, properties, condition (financial or otherwise), assets, liabilities or results of operations of the Company, or (b) would prevent or materially delay the Company's ability to consummate the Merger and the other transactions contemplated by this Agreement, except for any such events, changes, violations, inaccuracies, circumstances or effects resulting from (i) any changes in general economic, regulatory or political conditions, and (ii) any changes or events generally affecting the industry in which the Company operates, unless in any such instance such change or effect described in (i) or (ii) impacts the Company in a materially disproportionate manner relative to a preponderance of the other similar entities impacted by such change.

"***Company Option***" has the meaning set forth in Article 1.2 of this Agreement.

"***Company Option Plan***" has the meaning set forth in Article 3.4 of this Agreement.

"***Company Stock Rights***" means (i) all outstanding Company Options, (ii) all outstanding Company Warrants, and (iii) all other outstanding subscriptions, options, calls, warrants or any other rights, whether or not currently exercisable, to acquire any shares of Company Common Stock or that are or may become convertible into or exchangeable for any shares of Company Common Stock or another Company Stock Right.

"***Company Warrant***" has the meaning set forth in Article 3.4 of this Agreement.

"***Competitive Activity***" has the meaning set forth in Article VIII of this Agreement.

"***Confidentiality Agreement***" has the meaning set forth in Article 14.9 of this Agreement.

"Data" has the meaning set forth in Article 3.6 of this Agreement.

"***DGCL***" has the meaning set forth in Article 1.1 of this Agreement.

"Dissenting Shares" has the meaning set forth in Article 1.2 of this Agreement.

"***DOL***" means the United States Department of Labor.

"Effective Time" has the meaning set forth in Article 1.2 of this Agreement.

"***Employee***" or ***'Employees"*** means any current or retired employee, officer, or director of the Company.

"***Employee Shareholders***" has the meaning set forth in Article 7.8 of this Agreement.

"***ERISA***" means the Employee Retirement Income Security Act of 1974, as amended.

"***ERISA Affiliate***" means any Person that, together with the Company, would be treated as a single employer under Section 414 of the Code or Section 4001 of ERISA and the regulations thereunder.

"***Escrow Agent***" has the meaning set forth in Article 2.7 of this Agreement.

"***Escrow Agreement***" has the meaning set forth in Article 2.7 of this Agreement.

"***Escrow Deposit***" has the meaning set forth in Article 2.7 of this Agreement.

"***Escrow Release Date***" has the meaning set forth in Article 12.3 of this Agreement.

"***Exchange Act***" means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

"***Exchange Ratio***" has the meaning set forth in Article 1.2 of this Agreement.

"***Financial Statements***" has the meaning set forth in Article 3.6 of this Agreement.

"Fully Diluted Shares" has the meaning set forth in Article 1.2 of this Agreement.

"***GAAP***" has the meaning set forth in Article 3.6 of this Agreement.

"***Governmental Entity***" or "***Governmental Entities***" means any court, administrative agency or commission or other federal, state, county, local or foreign governmental authority, instrumentality, agency or commission.

"***Gross Up Payment***" has the meaning set forth in Article 7.7 of this Agreement.

"***Increased Taxes***" has the meaning set forth in Article 7.7 of this Agreement.

"***Increased Tax Dispute Notice***" has the meaning set forth in Article 7.7 of this Agreement.

"***Increased Tax Indemnity Claim***" has the meaning set forth in Article 7.7 of this Agreement.

"***Indemnifiable Matters***" has the meaning set forth in Article 12.3 of this Agreement.

"***Indemnified Party***" has the meaning set forth in Article 13.5 of this Agreement.

"***Indemnifying Party***" has the meaning set forth in Article 13.5 of this Agreement.

"***Initial Vesting Date***" has the meaning set forth in Article 7.8 of this Agreement.

"***Intellectual Property***" means 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.

"Inventory" means all inventories of the Company, wherever located, including all finished goods, work in process, raw materials, spare parts and other materials or supplies to be used or consumed by the Company in the production of finished goods.

"IRS" means the United States Internal Revenue Service.

"knowledge" means (including any derivation thereof such as "known" or "knowing") means the actual knowledge, after due inquiry, of Ari Jacoby and Todd Lieberman.

"Law" or ***"Laws"*** means any federal, state, foreign, or local law, statute, ordinance, rule, regulation, writ, injunction, directive, order, judgment, administrative interpretation, treaty, decree, administrative or judicial decision and any other executive, legislative, regulatory or administrative proclamation.

"Liability" or ***"Liabilities"*** means any direct or indirect liability, indebtedness, guaranty, endorsement, claim, loss, damage, deficiency, cost, expense, obligation or responsibility, whether accrued, unaccrued, absolute, contingent, mature, unmature or otherwise and whether known or unknown, fixed or unfixed, choate or inchoate, liquidated or unliquidated, secured or unsecured.

"Loans" has the meaning set forth in Article 2.9 of this Agreement.

"Losses" means 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 and whether or not arising from any Third Party Claim.

"Malware Software" means any program or file that is harmful to a computer user, including without limitation, computer viruses, worms, and Trojan horses.

"Merger" has the meaning set forth in the preamble to this Agreement.

"Merger Consideration" has the meaning set forth in Article 2.1 of this Agreement.

"Open Source Materials" means 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.

"Parent" has the meaning set forth in the preamble to this Agreement.

"Parent Common Stock" has the meaning set forth in Article 2.1 of this Agreement.

"Parent Disclosure Schedules" has the meaning set forth in the preamble of Article V to this Agreement.

"Parent Material Adverse Effect" means 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, taken as a whole.

"Parent Releasees" has the meaning set forth in Article 4.1 to this Agreement.

"Person" means any individual, corporation, partnership, limited liability company, firm, joint venture, association, joint-stock company, trust, unincorporated organization, Governmental Entity or other entity.

"PBCL" has the meaning set forth in Article 1.1 of this Agreement.

"Principal Shareholders" has the meaning set forth in Article VIII to this Agreement.

"Pro Rata Portion" has the meaning set forth in Article 12.4 to this Agreement.

"Purchase Price Allocation" has the meaning set forth in Article 7.7 of this Agreement.

"Registrable Shares" has the meaning set forth in Article 13.1 of this Agreement.

"Registration Statement" has the meaning set forth in Article 13.2 of this Agreement.

"Related Person" means any officer, director, Employee, consultant, Shareholder or Affiliate of the Company (including any ancestor, sibling, descendant or spouse of any of such Persons, or any trust, partnership, corporation, joint venture or other entity or enterprise in which any of such Persons has or has had an economic interest)

"Release" has the meaning set forth in Article 9.5 of this Agreement.

"Repurchase Date" has the meaning set forth in Article 7.9 of this Agreement.

"Repurchase Price" has the meaning set forth in Article 7.9 of this Agreement.

"***Restricted Equity Consideration***" has the meaning set forth in Article 7.8 of this Agreement.

"***SEC***" has the meaning set forth in Article 3.6 of this Agreement.

"***SEC Filings***" has the meaning set forth in Article 5.4 of this Agreement.

"***Section 3.12 Indemnifiable Matters***" has the meaning set forth in Article 12.3 of this Agreement.

"***Section 338(h)(10) Election***" has the meaning set forth in Article 7.7 of this Agreement.

"***Section 338(h)(10) Election Form***" has the meaning set forth in Article 7.7 of this Agreement.

"***Securities Act***" means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

"***Shareholders***" has the meaning set forth in the preamble to this Agreement.

"Shareholder Voting Agreements" has the meaning set forth in Article 7.11 of this Agreement.

"***Signing Loan***" has the meaning set forth in Article 2.9 of this Agreement.

"***Spyware***" means programming that gathers information about a computer user without permission.

"Surviving Corporation" has the meaning set forth in Article 1.3 of this Agreement.

"***Suspension Right***" has the meaning set forth in Article 13.3 of this 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.

"***Tax Returns***" 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.

"***Third Party Claim***" has the meaning set forth in Article 12.2 of this Agreement.

"***Violation***" has the meaning set forth in Article 13.5 of this Agreement.

"***Working Capital Loan***" has the meaning set forth in Article 2.8 of this Agreement.

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COUNTERPART SIGNATURE PAGE
TO AGREEMENT AND PLAN OF MERGER

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

COMPANY:

VOICESTAR, INC.

By: /s/ Todd Lieberman
Name: Todd Lieberman
Title: Chief Executive Officer

SHAREHOLDERS:

/s/ Todd Lieberman
Todd Lieberman

/s/ Ari Jacoby
Ari Jacoby

Exhibit 3.4

AMENDED AND RESTATED
BY-LAWS
OF
MARCHEX, INC.
(A Delaware Corporation)

Effective: December 6, 2007

AMENDED AND RESTATED
BY-LAWS
OF
MARCHEX, INC.
(A Delaware Corporation)

MARCHEX, INC.
AMENDED AND RESTATED BY-LAWS

ARTICLE 1
CERTIFICATE OF INCORPORATION

Section 1.1 Contents. The name, location of principal office and purposes of Marchex, Inc. (the "Corporation") shall be as set forth in its Certificate of Incorporation. These By-Laws, the powers of the Corporation and of its Directors and stockholders, and all matters concerning the conduct and regulation of the business of the Corporation shall be subject to such provisions in regard thereto, if any, as are set forth in said Certificate of Incorporation. The Certificate of Incorporation is hereby made a part of these By-Laws. In the event of any conflict between the provisions of these By-Laws and the provisions of the Certificate of Incorporation, the Certificate of Incorporation shall at all times govern.

Section 1.2 Certificate in Effect. All references in these By-Laws to the Certificate of Incorporation shall be construed to mean the Certificate of Incorporation of the Corporation as from time to time amended, including (unless the context shall otherwise require) all certificates and any agreement of consolidation or merger filed pursuant to the Delaware General Corporation Law, as amended.

ARTICLE 2
MEETINGS OF STOCKHOLDERS

Section 2.1 Place. All meetings of the stockholders may be held at such place either within or without the State of Delaware or by remote communication, as shall be designated from time to time by the Board of Directors, the Chairman of the Board of Directors or the Chief Executive Officer and stated in the notice of the meeting or in any duly executed waiver of notice thereof.

Section 2.2 Annual Meeting. Annual meetings of stockholders shall be held on the second Friday of May in each year, if not a legal holiday, and, if a legal holiday, then on the next secular day following, at 10:00 A.M., or at such other date and time as shall be designated from time to time by the Board of Directors, the Chairman of the Board of Directors or the Chief Executive Officer and stated in the notice of the meeting. If such annual meeting has not been held on the day herein provided therefor, a special meeting of the stockholders in lieu of the annual meeting may be held, and any business transacted or elections held at such special meeting shall have the same effect as if transacted or held at the annual meeting, and in such case all references in these By-Laws, except in this Section 2.2, to the annual meeting of the stockholders shall be deemed to refer to such special meeting.

Section 2.3 Special Meetings. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, may be called by the Chief Executive Officer, the Chairman of the Board, or by the Board of Directors and shall be called by the Secretary at the request in writing of a majority of the Directors then in

office, or at the request in writing of stockholders owning a majority of the voting power of all issued and outstanding stock (treated as a single class) and entitled to vote thereat. Such request shall state the purpose or purposes of the proposed meeting, which need not be the exclusive purposes for which the meeting is called.

Section 2.4 Notice of Meetings. A written notice or, if consented to by such stockholder, electronic transmission notice, of all meetings of stockholders stating the place, date and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the special meeting is called, shall be given to each stockholder entitled to vote at such meeting. Except as otherwise provided by law, such notice shall be given not less than ten nor more than sixty days before the date of the meeting. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

Section 2.5 Affidavit of Notice. An affidavit of the Secretary or an Assistant Secretary or the transfer agent of the Corporation that notice of a stockholders meeting has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

Section 2.6 Quorum. The holders of shares representing a majority of the voting power of all issued and outstanding stock (treated as a single class) and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the Certificate of Incorporation and in no event shall a quorum consist of less than one-third (1/3) of the shares entitled to vote thereat. If, however, such quorum shall not be present or represented by proxy at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, except as hereinafter provided, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 2.7 Voting Requirements. When a quorum is present at any meeting, the vote of the holders of shares representing a majority of the voting power of all issued and outstanding stock (treated as a single class) present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of any applicable statute or of the Certificate of Incorporation, a different vote is required in which case such express provision shall govern and control the decision of such question.

Section 2.8 Proxies and Voting. Except as provided in the Certificate of Incorporation, each stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such stockholder, but no proxy shall be voted on after three years from its date, unless the proxy provides for a longer period. Persons holding stock in a fiduciary capacity shall be entitled to vote the shares so held, and persons whose stock is pledged shall be entitled to vote the pledged shares, unless in the transfer by the pledgor on the books of the Corporation he shall have expressly empowered the pledgee to vote said shares, in which case only the pledgee, or his proxy, may represent and vote such shares. Shares of the capital stock of the Corporation owned by the Corporation shall not be voted, directly or indirectly.

Section 2.9 Remote Communications. Subject to compliance with the Delaware Corporation Law, if authorized by the Board of Directors, and subject to such guidelines as the Board of Directors may adopt, stockholders and proxyholders may participate by means of remote communication in any meeting of stockholders any may be deemed present in person and vote at a meeting by remote communication. Any reference to a stockholder being present or acting "in person" shall include participation by such remote communication for all purposes.

Section 2.10 Action Without Meeting. Unless otherwise provided in the Certificate of Incorporation, any action required to be taken at any annual or special meeting of stockholders of the Corporation or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing or a consent by electronic transmission, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written or electronic transmission consent shall be given to those stockholders who have not consented in writing or, if consented to by such stockholder, by electronic transmission.

Section 2.11 Stockholder List. The Officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. The original or duplicate stock ledger shall be the only evidence as to who are the stockholders entitled to examine such list, the stock ledger or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

Section 2.12 Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing or by electronic transmission without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

If no record date is fixed by the Board of Directors:

(a) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(b) The record date for determining stockholders entitled to express consent to corporate action in writing or by electronic transmission without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent or electronic transmission consent is expressed.

(c) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 2.13 Stockholder Meeting Procedures. All meetings of the stockholders shall be presided over by the Chief Executive Officer and in the absence of the Chief Executive Officer, by the President or the Chairman of the Board or in the absence of any such person, by the person chosen by stockholders owning a majority of the voting power of all issued and outstanding stock (treated as a single class) and entitled to vote thereat. Such person shall determine the order of business and the procedure of such meeting.

ARTICLE 3
DIRECTORS

Section 3.1 Number; Election and Term of Office. There shall be a Board of Directors of the Corporation consisting of not less than one member, the number of members to be determined by resolution of the Board of Directors or by the stockholders at the annual or any special meeting, unless the Certificate of Incorporation fixed the number of Directors, in which case a change in the number of Directors shall be made only by amendment of the Certificate. Subject to any limitation which may be contained within the Certificate of Incorporation, the number of the Board of Directors may be increased or decreased, as the case may be, at any time by vote of a majority of the Directors then in office. The Directors shall be elected at the annual meeting of the stockholders, except as provided in paragraph (c) of Section 8.1, and each Director elected shall hold office until his successor is elected and qualified or until his earlier resignation or removal. Directors need not be stockholders.

Section 3.2 Duties; Chairman and Vice Chairman of the Board, if any. The business of the Corporation shall be managed by or under the direction of its Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these By-Laws directed or required to be exercised or done by the stockholders. The Board of Directors may appoint a Chairman of the

Board and one or more Vice Chairman of the Board. The Chairman of the Board, if any, shall preside at all meetings of the Directors at which he is present, and, in the absence of the Chief Executive Officer and the President, if any, at all meetings of the stockholders, and shall have such other duties and powers as may from time to time be conferred upon him by the Directors. In the absence of the Chairman of the Board or in the event of his inability or refusal to act, the Vice Chairman of the Board, if any, shall have all powers and perform such duties as are otherwise vested in the Chairman of the Board and shall have such other duties and powers as may from time to time be conferred upon him by the Directors.

Section 3.3 Compensation. Unless otherwise restricted by the Certificate of Incorporation or these By-Laws, the Board of Directors shall have the authority to fix the compensation of Directors, whether in equity securities of the Corporation or cash, if any. The Directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as Directors. No such payment shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 3.4 Reliance on Books. A member of the Board of Directors or a member of any committee designated by the Board of Directors shall, in the performance of his duties, be fully protected in relying in good faith upon the books of account or reports made to the Corporation by any of its Officers, or by an independent certified public accountant, or by an appraiser selected with reasonable care by the Board of Directors or by any committee, or in relying in good faith upon other records of the Corporation.

Section 3.5 Interested Directors. No contract or transaction between the Corporation and one or more of its Directors or Officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its Directors or Officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the Director or Officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose if (i) the material facts as to the Director's or Officer's relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested Directors, even though the disinterested Directors be less than a quorum; or (ii) the material facts as to the Director's or Officer's relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee thereof or the stockholders. Interested Directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

ARTICLE 4
MEETINGS OF THE BOARD OF DIRECTORS

Section 4.1 Place. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware.

Section 4.2 Annual Meeting. Except as otherwise determined by the Board of Directors, the first meeting of each newly elected Board of Directors shall be held immediately following the annual meeting of stockholders or any special meeting held in lieu thereof, and no notice of such meeting shall be necessary to the newly elected Directors in order legally to constitute the meeting.

Section 4.3 Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by the Board.

Section 4.4 Special Meetings. Special meetings of the Board may be called by the Chief Executive Officer or the Chairman of the Board on two days' notice to each Director either personally or by mail or by telegram or by electronic transmission to the extent permitted by Delaware law; special meetings shall be called by the Secretary in like manner and on like notice on the written request of two Directors unless the Board consists of only one Director, in which case special meetings shall be called by the Secretary in like manner and on like notice on the written request of the sole Director.

Section 4.5 Quorum. At all meetings of the Board a majority of the Directors then in office shall constitute a quorum for the transaction of business and the act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute or by the Certificate of Incorporation. If a quorum shall not be present at any meeting of the Board of Directors, the Directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 4.6 Action Without Meeting. Unless otherwise restricted by the Certificate of Incorporation or these By-Laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board or committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board or committee. Such filing of electronic transmissions shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Section 4.7 Telephone Meetings. Unless otherwise restricted by the Certificate of Incorporation or these By-Laws, members of the Board of Directors, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors, or any committee, by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

ARTICLE 5
COMMITTEES OF DIRECTORS

Section 5.1 Designation.

(a) The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the Directors of the Corporation. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee.

(b) In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

(c) Any such committee, to the extent provided in the resolution of the Board of Directors designating the committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending the By-Laws of the Corporation; and, unless the resolution or the Certificate of Incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors.

Section 5.2 Records of Meetings. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

ARTICLE 6
NOTICES

Section 6.1 Method of Giving Notice. Whenever, under any provision of the law or of the Certificate of Incorporation or of these By-Laws, notice is required to be given to any Director or stockholder, such notice shall be given in writing or by electronic transmission (if consented to by stockholder receiving any such notice by electronic transmission), by the Secretary or the person or persons calling the meeting by leaving such written notice with such Director or stockholder at his residence or usual place of business or by mailing it addressed to such Director or stockholder, at his address as it appears on the records of the Corporation, with postage thereon prepaid, and such written notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Notice is deemed to be given if by electronic transmission: (1) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice; (2) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (3) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and (4) if by any other form of electronic transmission permitted by applicable law, when directed to the stockholder. Notice to Directors may also be given by telegram.

Section 6.2 Waiver. Whenever any notice is required to be given under any provision of law or of the Certificate of Incorporation or of these By-Laws, a waiver thereof, either in writing, signed by the person entitled to notice, or by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends the meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.

ARTICLE 7
OFFICERS

Section 7.1 In General. The Officers of the Corporation shall be appointed by the Board of Directors and shall include a Chief Executive Officer, a Secretary, an Assistant Secretary and a Treasurer. The Chief Executive Officer shall be empowered by the Board of Directors to appoint Officers in addition to those Officers listed above, which may include a President, Chief Operating Officer, Chief Administrative Officer, Chief Strategy Officer, Chief Financial Officer and Assistant Treasurer. Any number of offices may be held by the same person, unless the Certificate of Incorporation or these By-Laws otherwise provide.

Section 7.2 Election of Chief Executive Officer, Secretary, Assistant Secretary and Treasurer. The Board of Directors at its first meeting after each annual meeting of stockholders shall appoint a Chief Executive Officer, a Secretary, an Assistant Secretary and a Treasurer.

Section 7.3 Election of Other Officers. The Board of Directors or the Chief Executive Officer as empowered by the Board of Directors may appoint such other Officers and agents as it shall deem appropriate who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board.

Section 7.4 Salaries. The salaries of all Officers and agents of the Corporation may be fixed by the Chief Executive Officer within the parameters established by the Board of Directors.

Section 7.5 Term of Office. The Officers of the Corporation shall hold office until their successors are chosen and qualify or until their earlier resignation or removal. Any Officer elected or appointed by the Board of Directors may be removed at any time in the manner specified in Section 8.2.

Section 7.6 Duties of Chief Executive Officer and President, if any. The Chief Executive Officer shall be the chief executive officer of the Corporation, shall preside at all meetings of the stockholders and, if he is a Director, at all meetings of the Board of Directors if there shall be no Chairman of the Board or in the absence of the Chairman of the Board, shall have general and active management of the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. In the absence of the Chief Executive Officer or in the event of his inability or refusal to act, the President, if any, shall have all powers and perform such duties as are otherwise vested in the Chief Executive Officer. In the absence of the President, the Board of Directors shall determine which such other Officer shall have all powers and perform such duties as are otherwise vested in the Chief Executive Officer. The Chief Executive Officer and the President, if any, shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other Officer or agent of the Corporation.

Section 7.7 Duties of Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of the stockholders and record all the proceedings of the meetings of the Corporation and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, except as otherwise provided in these By-Laws, and shall perform such other duties as may be prescribed by the Board of Directors, Chief Executive Officer or President, if any, under whose supervision he shall be. He shall have charge of the stock ledger (which may, however, be kept by any transfer agent or agents of the Corporation under his direction) and of the corporate seal of the Corporation.

Section 7.8 Duties of Assistant Secretary. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election) shall, in the absence of the Secretary or in the event of his inability or refusal to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

Section 7.9 Duties of Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Chief Executive Officer, the Board of Directors and the President, if any, at its regular meetings, or when the Board of Directors so requires, an account of all of his transactions as Treasurer and of the financial condition of the Corporation. If required by the Board of Directors, he shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of this office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

Section 7.10 Duties of Other Officers. The other Officers, which may include a Chief Financial Officer, Chief Operating Officer, Chief Strategy Officer, General Counsel and Chief Administrative Officer, Chief Information Officer, Chief Media Officer, one or more Vice Presidents and an Assistant Treasurer, shall perform such duties and have such powers as the Board of Directors may from time to time prescribe for each such Officer.

ARTICLE 8
RESIGNATIONS, REMOVALS AND VACANCIES

Section 8.1 Directors

(a) Resignations. Any Director may resign at any time by giving written notice or by electronic transmission notice to the Board of Directors, the Chief Executive Officer or the Secretary. Such resignation shall take effect at the time specified therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

(b) Removals. Subject to any provisions of the Certificate of Incorporation, the holders of stock entitled to vote for the election of Directors may, at any meeting called for the purpose, by vote of the holders of shares representing a majority of voting power of all issued and outstanding stock (treated as a single class), remove any Director or the entire Board of Directors with or without cause and fill any vacancies thereby created. This Section 8.1(b) may not be altered, amended or repealed except by the vote of those holders representing a majority of voting power of all issued and outstanding stock (treated as a single class) and who are entitled to vote for the election of the Directors.

(c) Vacancies. Vacancies occurring in the office of Director and newly created Directorships resulting from any increase in the authorized number of Directors shall be filled by a vote of a majority of the Directors then in office, though less than a quorum, unless previously filled by the stockholders entitled to vote for the election of Directors, and the Directors so chosen shall hold office subject to the By-Laws until the next annual election and until their successors are duly elected and qualify or until their earlier resignation or removal. If there are no Directors in office, then an election of Directors may be held in the manner provided by statute.

Section 8.2 Officers.

Any Officer may resign at any time by giving written notice to the Board of Directors, the Chief Executive Officer or the Secretary. Such resignation shall take effect at the time specified therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. The Board of Directors may, at any meeting called for the purpose, by vote of a majority of their entire number, remove from office any Officer of the Corporation or any member of a committee, with or without cause. Any vacancy occurring in the office of Chief Executive Officer, Secretary, Assistant Secretary or Treasurer shall be filled by the Board of Directors and the Officers so chosen shall hold office subject to the By-Laws for the unexpired term in respect of which the vacancy occurred and until their successors shall be elected and qualify or until their earlier resignation or removal.

ARTICLE 9
CERTIFICATE OF STOCK

Section 9.1 Issuance of Stock. The Directors may, at any time and from time to time, if all of the shares of capital stock which the Corporation is authorized by its Certificate of Incorporation to issue have not been issued, subscribed for, or otherwise committed to be issued, issue or take subscriptions for additional shares of its capital stock up to the amount authorized in its Certificate of Incorporation. Such stock shall be issued and the consideration paid therefor in the manner prescribed by law.

Section 9.2 Certificates of Stock. The shares of the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any class or series of its stock shall be uncertificated shares; provided, however, that no such resolution shall apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Every holder of stock of the Corporation represented by certificates, and, upon written request to the Corporation's transfer agent or registrar, any holder of uncertificated shares, shall be entitled to have a certificate, in such form as may be prescribed by law and by the Board of Directors, certifying the number and class of shares owned by him in the Corporation. Each such certificate shall be signed by, or in the name of the Corporation by the Chairman or Vice Chairman, if any, of the Board of Directors, or the Chief Executive Officer, President or a Vice President, and the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation.

Section 9.3 Facsimile Signature. Any of or all the signatures on the certificate may be facsimile. In case any Officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such Officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such Officer, transfer agent or registrar at the date of issue.

Section 9.4 Lost Certificates. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed or it may issue uncertificated shares if the shares represented by such certificate have been designated as uncertificated shares in a resolution adopted pursuant to Section 9.2, upon the making of an affidavit of that fact by the

person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 9.5 Transfer of Stock. Except as otherwise established by rules and regulations adopted by the Board of Directors, and subject to applicable law, shares of stock may be transferred on the books of the Corporation: (i) in the case of shares represented by a certificate, by the surrender to the Corporation or its transfer agent of the certificate representing such shares properly endorsed or accompanied by a written assignment or power of attorney properly executed, and with such proof of authority or authenticity of signature as the Corporation or its transfer agent may reasonably require; and (ii) in the case of uncertificated shares, upon the receipt of proper transfer instructions from the registered owner thereof.

Section 9.6 Registered Stockholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE 10
INDEMNIFICATION

Section 10.1 Third Party Actions. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a Director, Officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, Officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

Section 10.2 Derivative Actions. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a Director, Officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, Officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 10.3 Expenses. To the extent that a Director, Officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 10.1 and 10.2, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

Section 10.4 Authorization. Any indemnification under Sections 10.1 and 10.2 (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the Director, Officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in Sections 10.1 and 10.2. Such determination shall be made (a) by the Board of Directors by a majority vote of a quorum consisting of Directors who were not parties to such action, suit or proceeding, or (b) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested Directors so directs, by independent legal counsel in a written opinion, or (c) by the stockholders.

Section 10.5 Advance Payment of Expenses. Expenses incurred by an Officer or Director in defending a civil or criminal action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such Officer or Director to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article 10 and provided that the Corporation shall not be required to advance any expenses to such Officer or Director against whom the Corporation directly brings a claim, alleging a breach of the duty of loyalty to the Corporation, or the commission of an act or omission not in good faith or that involves intentional misconduct or a knowing violation of the law. Such expenses incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate.

Section 10.6 Non-Exclusiveness. The indemnification provided by this Article 10 shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under the Certificate of Incorporation, any by-law, agreement, vote of stockholders or disinterested Directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a Director, Officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 10.7 Insurance. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a Director, Officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, Officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article 10.

Section 10.8 Constituent Corporations. The Corporation shall have power to indemnify any person who is or was a Director, Officer, employee or agent of a constituent corporation absorbed in a consolidation or merger with this Corporation or is or was serving at the request of such constituent corporation as a Director, Officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, in the same manner as hereinabove provided for any person who is or was a Director, Officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, Officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise.

Section 10.9 Additional Indemnification. In addition to the foregoing provisions of this Article 10, the Corporation shall have the power, to the full extent provided by law, to indemnify any person for any act or omission of such person against all loss, cost, damage and expense (including attorney's fees) if such person is determined (in the manner prescribed in Section 10.4 hereof) to have acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interest of the Corporation.

Section 10.10 Contract. The indemnification provided by this Article X shall be deemed to be a contract between the Corporation and each Director, Officer, employee and agent who serves in such capacity at any time while this Article X is in effect, and any repeal or modification thereof shall not affect any rights or obligations then existing with respect to any state or statement of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought based in whole or in part upon any such state or statement of facts.

ARTICLE 11
EXECUTION OF PAPERS

Except as otherwise provided in these By-Laws or as the Board of Directors may generally or in particular cases otherwise determine, all deeds, leases, transfers, contracts, bonds, notes, checks, drafts and other instruments authorized to be executed on behalf of the Corporation shall be executed by the Chief Executive Officer or the Treasurer.

ARTICLE 12
FISCAL YEAR

The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

ARTICLE 13
SEAL

The Corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the word “Delaware”. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ARTICLE 14
OFFICES

In addition to its principal office, the Corporation may have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE 15
AMENDMENTS

Except as otherwise provided herein, these By-Laws may be altered, amended or repealed or new By-Laws may be adopted by the stockholders or by the Board of Directors, when such power is conferred upon the Board of Directors by the Certificate of Incorporation, at any regular meeting of the stockholders or of the Board of Directors, or at any special meeting of the stockholders or of the Board of Directors if notice of such alteration, amendment, repeal or adoption of new By-Laws is contained in the notice of such special meeting, or by the written consent of the holders of shares representing a majority of the voting power of all issued and outstanding stock of the Corporation (treated as a single class) or by the unanimous written consent of the Directors. If the power to adopt, amend or repeal by-laws is conferred upon the Board of Directors by the Certificate of Incorporation, it shall not divest or limit the power of the stockholders to adopt, amend or repeal by-laws.

Exhibit 10.9

FORM OF RESTRICTED STOCK AGREEMENT

This Restricted Stock Agreement (the "Agreement") is entered into this 1st day of January, 2007 between Marchex, Inc., a Delaware corporation (the "Company") and (the "Participant").

WITNESSETH:

WHEREAS, the Compensation Committee of the Company has agreed to grant to the Participant, shares of the Company's Class B common stock, par value $0.01 per share (the "Shares" or "Common Stock") in accordance with the terms and conditions of the Company's 2003 Amended and Restated Stock Incentive Plan (the "Plan"); and

WHEREAS, the Shares are subject to certain restrictions; and

WHEREAS, a condition to the grant of the Shares to the Participant is that the Participant execute this Agreement.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Grant of Shares. Subject to the terms, conditions and restrictions of the Plan and this Agreement, the Company hereby awards to the Participant, Shares on January 1, 2007 (the "Grant Date"). To the extent required by law, the Participant shall pay the Company the par value ($0.01) (the "Purchase Price") for each Share awarded to the Participant simultaneously with the execution of this Agreement in cash or cash equivalents payable to the order of the Company. Pursuant to the Plan and Section 4 of this Agreement, the Shares are subject to certain restrictions, which restrictions shall expire in accordance with the provisions of the Plan and Section 4 hereof. While such restrictions are in effect, the Shares subject to such restrictions shall be referred to herein as "Restricted Stock", and Shares as to which such restrictions have expired shall be referred to herein as "Vested Shares."

2. Right to Repurchase Upon Termination of Employment Relationship. In the event Participant's employment relationship with the Company terminates, for any reason whatsoever, whether due to voluntary or involuntary action, death, disability or otherwise, the Company shall have the right to repurchase at the original price paid therefor all or any portion of the Restricted Stock, which right may be exercised at any time and from time to time within ninety (90) days after the date of such termination.

3. Exercise of Right of Repurchase. The Company may exercise its right of repurchase by providing written notice to the Participant stating the number of Shares of Restricted Stock to be repurchased, the aggregate price to be paid (the "Repurchase Price") and the date (the "Repurchase Date") such repurchase shall occur (which shall be a date not fewer than ten (10) and not more than thirty (30) days from the date of such notice). On the Repurchase Date, the Company shall deliver the Repurchase Price to the Participant, by check or wire of immediately available funds, against delivery of the certificate or certificates representing the Shares to be repurchased and duly endorsed stock powers.

4. Vesting of Shares. So long as the Participant continues to remain as an employee of the Company, the Shares will be deemed to become "Vested Shares" as follows: 12.5% of the aggregate amount of the Shares shall vest on each of the respective 18, 24, 30 and 36 month anniversaries of the Grant Date and the remaining 50% of the aggregate amount of the Shares shall vest on the 72 month anniversary of the Grant Date. One hundred percent (100%) of the Shares not already vested as of the date of a Change of Control, shall become immediately vested upon such Change of Control. For the purposes hereof, "Change of Control" shall mean the occurrence of any of the following events:

(i) an acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any "Person" or "Group" (as such terms are used for the purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) immediately after which such Person or Group has Beneficial Ownership (within the meaning of Rule l3d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the combined voting power of the Company's then-outstanding Voting Securities; provided, however, in determining whether or not a Change of Control has occurred, Voting Securities which are acquired in a "Non-Control Acquisition" (as hereinafter defined) shall not constitute an acquisition which would constitute a Change of Control. A "Non-Control Acquisition" shall mean an acquisition by (i) any employee benefit plan (or related trust) sponsored or maintained by the Company or any affiliate of the Company, (ii) the Company, (iii) any Person in connection with a Non-Control Transaction (as hereinafter defined), or (iv) any holder of the Company's Class A Common Stock as of the date hereof;

(ii) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) the consummation of:

(a) A merger, consolidation or reorganization with or into the Company or in which securities of the Company are issued, unless such merger, consolidation or reorganization is a "Non-Control Transaction". A "Non-Control Transaction" is a merger, consolidation or reorganization with or into the Company or in which securities of the Company are issued where:

A. the shareholders of the Company immediately before such merger, consolidation, or reorganization, own, directly or indirectly, at least fifty-one percent (51%) of the combined voting power of the outstanding voting securities of the corporation resulting form such merger, consolidation or reorganization (the "Surviving Corporation") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization,

B. the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least a majority of the members of the board of directors of the Surviving Corporation or a corporation owning directly or indirectly fifty-one percent (51%) or more of the Voting Securities of the Surviving Corporation, and

C. no Person or Group, other than (i) the Company, (ii) any subsidiary of the Company, (iii) any employee benefit plan (or any trust forming a part thereof) maintained by the Company immediately prior to such merger, consolidation, or reorganization, or (iv) any holder of the Company's Class A Common Stock as of the date hereof, owns twenty percent (20%) or more of the combined voting power of the Surviving Corporation's then-outstanding voting securities; or

(b) a complete liquidation or dissolution of the Company; or

(c) the sale of disposition of all or substantially all of the assets of the Company to any Person.

Notwithstanding the foregoing, a Change of Control shall not be deemed to occur solely because any Person (the "Subject Person") acquired Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person, provided that if a Change of Control would occur (but for the operation of this sentence) and after such acquisition of Voting Securities by the Company, the Subject Person becomes the Beneficial Owner of any additional Voting Securities, then a Change of Control shall occur.

There shall be no proportionate or partial vesting in the periods prior to the applicable vesting dates and all vesting shall occur only on the appropriate vesting date. The Compensation Committee may, in its sole discretion, provide for accelerated vesting of the Restricted Stock at any time. Fractional shares of Common Stock resulting from any vesting hereunder shall be aggregated until, and eliminated at, the time of vesting by rounding-down for fractions less than one-half and rounding-up for fractions equal to or greater than one-half. Cash settlements shall be made with respect to fractional shares of Common Stock eliminated by rounding in accordance with the Plan.

5. Transfers. No Participant shall, directly or indirectly, sell, assign, transfer, pledge, hypothecate, mortgage, encumber or dispose of (either voluntarily or by operation of law or otherwise) all or any of his Restricted Stock (or any interest therein or any option, warrant or other right with respect thereto).

6. Rights as a Holder of Restricted Stock. From and after the Grant Date, the Participant shall have, with respect to the Restricted Stock, all of the rights of a holder of shares of Common Stock, including, without limitation, the right to receive and retain all regular cash dividends payable to holders of shares of record on and after the Grant Date (although such dividends will be treated, to the extent required by applicable law, as additional compensation for tax purposes), voting rights and to exercise all other rights, powers and privileges of a holder of shares with respect to the Restricted Stock, with the exceptions that (i) the Participant shall not be entitled to delivery of the stock certificate or certificates representing the Restricted Stock until such shares are no longer Restricted Stock; and (ii) the Company (or its designated agent) will retain custody of the stock certificate or certificates representing the Restricted Stock.

7. Taxes; Section 83(b) Election. The Participant acknowledges that (i) no later than the date on which any Restricted Stock shall have become vested or upon the filing of an election under Section 83(b) as provided below, the Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding payment of, any federal, state or local taxes of any kind required by law to be withheld with respect to any Restricted Stock which shall have become so vested; and (ii) the Company shall, to the extent permitted by law, have the right to deduct from any payment of any kind otherwise due to the Participant any federal, state or local taxes of any kind required by law to be withheld with respect to any Restricted Stock which shall have become so vested or other withholding taxes that are required by law, including that the Company may, but shall not be required to, sell a number of Shares sufficient to cover applicable withholding taxes. The Participant also acknowledges that it is his or her sole responsibility, and not the Company's, to file timely and properly any election under Section 83(b) of the Internal Revenue Code of 1986, as amended (the "Code"), and any corresponding provisions of state tax laws, if the Participant wishes to utilize such election.

8. Legend. In the event that a certificate evidencing Restricted Stock is issued, the certificate representing the Shares shall have endorsed thereon the following legend:

"THE ANTICIPATION, ALIENATION, ATTACHMENT, SALE, TRANSFER, ASSIGNMENT, PLEDGE, ENCUMBRANCE OR CHARGE OF THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS (INCLUDING FORFEITURE) OF THE MARCHEX, INC. (THE "COMPANY") 2003

AMENDED AND RESTATED STOCK INCENTIVE PLAN (THE "PLAN") AND AN AGREEMENT ENTERED INTO BETWEEN THE REGISTERED OWNER AND THE COMPANY DATED AS OF THE 1st DAY OF JANUARY, 2007. COPIES OF SUCH PLAN AND AGREEMENT ARE ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY."

9. Certain Additional Payments by the Company. In the event it shall be determined at any time that as a result, directly or indirectly, of the Shares or payment or distribution by the Company to or for the benefit of the Participant in connection therewith, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), the Participant would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Participant with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax), then the Participant shall be entitled to promptly receive from the Company an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Participant of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, but excluding any income taxes on the Payment, the Participant is in the same after-tax position as if no Excise Tax had been imposed upon the Participant.

10. Recapitalizations, Reorganizations, Changes in Control and the Like. Adjustments and certain other matters relating to recapitalizations, reorganizations, sale of the assets of the Company, changes in control and the like shall be made and determined in accordance with Section 16 of the Plan, as in effect on the date of this Agreement.

11. Failure to Deliver Shares. If the Participant becomes obligated to sell any Shares to the Company under this Agreement and fails to deliver such Shares in accordance with the terms of this Agreement, the Company may, at its option, in addition to all other remedies it may have, send to the defaulting Participant the Purchase Price for such Shares as is herein specified. Thereupon, the Company, upon written notice to the defaulting Participant, shall cancel on its books the certificate or certificates representing the Shares to be sold, and all of the defaulting Participant's rights in and to such Shares shall terminate.

12. Specific Enforcement. The Participant expressly agrees that the Company may be irreparably damaged if this Agreement is not specifically enforced. Upon a breach or threatened breach of the terms, covenants and/or conditions of this Agreement by Participant, the Company shall, in addition to all other remedies, each be entitled to apply for a temporary or permanent injunction, and/or a decree for specific performance, in accordance with the provisions hereof.

13. No Special Employment or Other Contract Rights. Nothing contained in this Agreement shall be construed or deemed by any person under any circumstances to bind the Company to continue the employment relationship of the Participant for the period within which the Shares shall vest.

14. Attorneys-in-Fact. Each Participant hereby irrevocably appoints each person who may from time to time serve as Chief Executive Officer, Chief Financial Officer or General Counsel of the Company as his or her attorney-in-fact with specific authority to execute, acknowledge, swear to, file, and deliver all consents, elections, instruments, certificates, and other documents and to take any other action requisite to carrying out the intention and purpose of this Agreement.

15. Provisions of Plan Control. This Agreement is subject to all the terms, conditions and provisions of the Plan, including, without limitation, the amendment provisions thereof, and to such rules, regulations and interpretations relating to the Plan as may be adopted by the Compensation Committee and as may be in effect from time to time. The Plan is incorporated herein by reference. A copy of the Plan has been delivered to the Participant. If and to the extent that this Agreement conflicts or is inconsistent with the terms, conditions and provisions of the Plan, the Plan shall control, and this Agreement shall be deemed to be modified accordingly. Unless otherwise indicated, any capitalized term used but not defined herein shall have the meaning ascribed to such term in the Plan. This Agreement contains the entire understanding of the parties with respect to the subject matter hereof (other than any other documents expressly contemplated herein or in the Plan) and supersedes any prior agreements between the Company and the Participant.

16. Governing Law; Successors and Assigns. This Agreement shall be governed by the internal and substantive laws of the State of Delaware without giving effect to the conflicts of laws principles thereof and, except as otherwise provided herein, shall be binding upon the heirs, personal representatives, executors, administrators, successors and assigns of the parties. Each party hereby consents to the personal jurisdiction of the State of Delaware, acknowledges that venue is proper in any state or Federal court in the State of Delaware, agrees that any action related to this Agreement must be brought in a state or Federal court in the State of Delaware and waives any objection that may exist, now or in the future, with respect to any of the foregoing.

17. Attorney's Fees. In the event that any suit or action is instituted to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

18. Notices. Any notices or other communications required to be given hereunder shall be given by hand delivery or by first class mail with all fees prepaid and addressed, if to the Company, to it at its principal place of business, Attn: General Counsel, and if to Participant, to him, her or it at the address set forth in the signature page hereto.

19. Severability. If any provision of this Agreement shall be held to be illegal, invalid or unenforceable, such illegality, invalidity or unenforceability shall attach only to such provision and shall not in any manner affect or render illegal, invalid or unenforceable any other provision of this Agreement, and this Agreement shall be carried out as if any such illegal, invalid or unenforceable provision were not contained herein.

20. Captions. Captions are for convenience only and are not deemed to be part of this Agreement.

21. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

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IN WITNESS WHEREOF, this Agreement has been executed as an instrument under seal of the date and year first above written.

COMPANY:

MARCHEX, INC.

By: _____
Name: Russell C. Horowitz
Title: Chief Executive Officer

PARTICIPANT:

_____

Name:
Address: _____

_____

Exhibit 10.11

MASTER SERVICES AND LICENSE AGREEMENT

This Master Services and License Agreement ("**Agreement**") dated as of October 1, 2007, is by and between MDNH, Inc., a Delaware corporation, with a principal place of business at 101 Convention Center Drive, Suite 101, Las Vegas, NV 89109 ("**Marchex Local**") and YellowPages.com LLC, a Delaware limited liability company, with a principal place of business at 611 N. Brand Boulevard, 5th Floor, Glendale, CA 91203 ("**YPC**"). YPC and Marchex Local may hereinafter also referred to individually as "**Party**" and collectively as "**Parties**."

W I T N E S S E T H:

WHEREAS, Marchex Local provides a variety of online advertising related services, including consulting, technology services and licensing, paid inclusion, and pay for performance advertising with third party search engines;

WHEREAS, the Parties wish to establish standard terms and conditions under which the YPC Parties may obtain from Marchex Local services for the paid performance and/or paid inclusion of customers' advertisements within online search engines, web sites and directories and for related consulting services, technology services and licensing (to the extent expressly set forth herein, the "Advertising Services");

WHEREAS, as of the Effective Date, Marchex Local and each YPC Party are entering into separate Project Addenda, pursuant to which each YPC Party will specify the services it will purchase from Marchex Local in accordance with this Agreement and agree to be bound by the terms and conditions of this Agreement and assume the obligations of a YPC Party under this Agreement as such relate to the provision of services and licensing of technology to such YPC Party hereunder; and

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, YPC and Marchex Local agree as follows:

1. DEFINITIONS

As used herein, each of the following terms shall have the meanings attributed to them as follows:

1.1. **"Advertisement"** means the form of advertisement or paid listing submitted to a Search Engine using the Advertiser Information.

1.2. **"Advertiser"** means any entity that purchases an Advertising Package

1.3. * * *

1.4. **"Advertiser Terms"** means the terms and conditions in effect for all Advertisers to whom Services shall be delivered hereunder, as further provided in Section 3.4.

1.5. **"Advertiser Web Site"** means the Web site or property at the Advertiser URL (or redirect URL).

1.6. **"Advertiser URLs"** means the Internet address associated with Advertisers that are provided, supplied or designated by a YPC Party to Marchex Local pursuant to this Agreement.

1.7. **"Advertising Package"** means those packages of advertising services that the YPC Parties offer to Advertisers, as further provided in Section 3.5 and as further described in Exhibit A hereto.

1.8. **"Affiliate"** means, with respect to a Party, any entity that, directly or indirectly, controls, is controlled by, or is under common control with such Party; and "control" means the direct or indirect possession of the power to direct or cause the direction of the management and policies of another entity, whether through the ownership of voting securities, by contract or otherwise.

1.9. * * *

1.10. **"Bankruptcy Event"** means: (a) a receiver is appointed for a party or its property; (b) a party becomes insolvent or unable to pay its debts as they mature in the ordinary course of business or makes a general assignment for the benefit of its creditors; or (c) any proceedings (whether voluntary or involuntary) are commenced against a party under any bankruptcy or similar law and such proceedings are not vacated or set aside within sixty (60) days from the date of commencement thereof.

1.11. * * *

1.12. **"Campaign"** means the specific advertising campaign that Marchex Local submits to a specific Search Engine as part of an Advertising Package according to a specific set of rules, including, without limitation, maximum bid.

1.13. * * *

1.14. **"Confidential Information"** shall have the meaning set forth in Section 8.1.

1.15. * * *

1.16. * * *

1.17. * * *

1.18. **"Effective Date"** means October 1, 2007.

1.19. * * *

1.20. **"Fees"** means the Marchex Local fees for the Services set forth in Exhibit B and any other fees arising pursuant to this Agreement.

1.21. **"Intellectual Property Rights"** means all worldwide copyrights, patents, mask work rights, trade secrets, know how, trademarks, service marks, moral rights and other proprietary rights, and all applications and registrations therefor.

1.22. * * *

1.23. * * *

1.24. **"Optional Services"** shall have the meaning set forth in Section 4.

1.25. **"Platform"** means * * *

1.26. * * *

1.27. **"Project Addendum"** means a separate written order for the Services that a YPC Party enters into with Marchex Local, subject to the terms and conditions of this Agreement, in a form mutually agreed in writing by such YPC Party and Marchex Local.

1.28. * * *

1.29. * * *

1.30. * * *

1.31. * * *

1.32. **"Services"** means * * *

1.33. * * *

1.34. **"Specifications"** means* * *

1.35. * * *

1.36. **"Term"** shall have the meaning set forth in Section 12.1.

1.37. **"Upgrades"** means any upgrades, updates, revisions, corrections, modifications improvements, bug fixes, patches, maintenance releases, versions and enhancements that Marchex Local makes to the Platform during the Term, including any accompanying Specifications, excluding any beta versions thereof.

1.38. **"User"** means a person connected to the Internet.

1.39. **"YPC Party"** means each of YPC, Southwestern Bell Yellowpages, Inc. (and its Affiliates Ameritech Publishing Inc., SNET Information Services, Pacific Bell Directory, Nevada Bell, Southwestern Bell Advertising Group Inc., Southwestern Bell Advertising LP), BellSouth Advertising and Publishing Company, (and its Affiliates Intelligent Media Ventures, LLC and L.M. Berry Company) and, subject to the prior written consent of YPC, any third party that mutually executes a Project Addendum with Marchex Local.

2. AGREEMENT DOCUMENTS; ORDER OF PRECEDENCE

2.1. Agreement and Project Addenda. The purpose of this Agreement, which is for the benefit of all YPC Parties, is to set forth: (i) the general terms and conditions applicable to all Project Addenda; and (ii) the Services and initial related pricing available to YPC Parties for inclusion in Project Addenda. From time to time during the Term, Marchex Local and individual YPC Parties may execute one or more written Project Addenda, which will specify the Services made available under this Agreement and the applicable terms. Once the authorized representatives for Marchex Local and the relevant YPC Party execute and deliver a Project Addendum, such Parties shall perform their respective obligations thereunder subject to the terms and conditions set forth therein and in this Agreement. For the avoidance of doubt, the initial pricing available to the YPC Parties for the identified Services shall be as set forth in Exhibit B * * *

2.2. Contents of Each Project Addendum. Each Project Addendum shall be numbered consecutively and dated and contain (or incorporate as attachments or by reference), at a minimum, the following elements: * * *

2.3. Prior Agreement. This Agreement and the Project Addenda shall supersede and replace the Master Agreement, dated as of April 16, 2004, between Marchex Local and Intelligent Media Ventures, LLC ("IMV"), as amended by an Agreement, dated as of April __, 2005, between Marchex Local, IMV, Southwestern Bell Yellow Pages, Inc., YPC, and www.YellowPages.com, Inc. (collectively, the "Prior Agreement"), and such Prior Agreement shall, in all respects, be void and of no further force or effect after the later of (i) the Effective Date and the date as of which all YPC Parties and Marchex Local have executed and delivered their respective Project Addenda.

3. PLATFORM LICENSE, ACCOUNTS AND REPORTING

3.1. License. During the term of the applicable Project Addendum, Marchex Local hereby grants the YPC Parties a non-exclusive, limited, revocable, license to access and use the Platform: * * *

3.2. Establishment of Accounts. YPC Parties shall submit, with respect to each account: * * *

3.3. Reporting to the YPC Parties. Marchex Local will maintain and make available to the YPC Parties * * * data and reports regarding * * * account performance. * * *

3.4. Advertiser Terms; YPC Marketing Practices. Each YPC Party shall enter into Advertiser Terms with each Advertiser to whom Services shall be delivered hereunder. YPC represents that it will maintain a copy of its Advertiser Terms and any updates on such YPC Party's website throughout the Term. * * *

3.5. * * *

3.6. * * *

(a) * * *

(b) * * *

* * *

(c) * * *

(d) * * *

(e) * * *

(f) * * *

3.7. * * *

4. MARCHEX LOCAL OPTIONAL SERVICES

To the extent specified in a mutually executed Project Addendum, Marchex Local will provide the optional Services described below in Sections 4.1- 4.5 ("**Optional Services**").

4.1. Editorial Creation. If a YPC Party has selected editorial creation as an Optional Service, Marchex Local will provide the following content creation and account optimization services:

(a) Editorial Content. Upon receiving account information from a YPC Party, Marchex Local will add creative content to accounts consisting of keyword selection, titles, and/or descriptions, for the Advertising Packages designated for such accounts, as set forth below.

(i) * * *

(ii) * * *

(iii) * * *

(b) Optimization.

(i) * * *

(ii) * * *

4.2. Media Buys; Purchasing and Payment Agent. To the extent a YPC Party orders or requests Advertising Services in the form of media purchases hereunder, YPC Party grants to Marchex Local the authority to act as YPC Party's * * * purchasing and/or paying agent * * * with respect to any publication of the Advertiser Information within designated Search Engines. * * *

(a) General. To fulfill the Advertising Packages selected by Advertisers, Marchex Local shall (in each case to the extent made available by the applicable Search Engine): * * *

(b) * * *

(c) * * *

(d) * * *

4.3. Advertiser Performance Reports. At the election of each YPC Party, Marchex Local shall, on a * * * basis according to the timetable set forth in the applicable Project Addendum for such YPC Party, either: * * *

4.4. Optimization of Accounts. If a YPC Party elects not to obtain the editorial creation service from Marchex Local described in Section 4.1, or if a YPC Party elects to obtain optimization services in addition to the editorial creation service described in Section 4.1, such YPC Party may, at its option, obtain from Marchex Local separate optimization services pursuant to mutually acceptable terms and pricing established in a Project Addendum.

4.5. Training.

(a) Platform Operations Training. Subject to the Fees set forth in Exhibit B, Marchex Local will provide to each YPC Party, to the extent expressly set forth in a Project Addendum, * * *operations training for the Platform * * *

(b) Sales Training. Marchex Local will provide on-site sales training to each YPC Party upon request for the Fees set forth in Exhibit B. * * *

5. PRICES AND PAYMENT

5.1. Pricing. Except as set forth below, Marchex Local shall furnish Services in accordance with the prices set forth in Exhibit B.
* * *

(a) * * *

(i) * * *

(ii) * * *

(b) * * *

5.2. Payment.

(a) The applicable YPC Party shall pay Marchex Local any amounts due Marchex Local pursuant to Exhibit B and/or any Project Addendum within * * * days of its receipt of invoice from Marchex Local. Each invoice will itemize and describe Fees paid pursuant to Exhibit B. * * * All fees quoted and payments made hereunder shall be in immediately available U.S. dollars.

(b) * * *

(c) * * *

(d) * * *

5.3. Taxes. All Fees are exclusive of any local, state or federal sales, use, gross receipts, excise, import or export, value added or similar taxes, duties, fees, assessments or levies ("Taxes"), which shall be the sole obligation of the applicable YPC Party. Marchex Local shall separately state on each applicable invoice, and the YPC Party shall pay, any Taxes legally imposed on or with respect to the Services provided hereunder and the fees and other amounts paid with respect thereto, provided, however, that the YPC Party shall not be responsible for franchise taxes applicable to Marchex Local or taxes on Marchex Local's net income, profits, business assets, or ad valorem personal property. Marchex Local shall not invoice the YPC Party for any Taxes if, and to the extent that, the YPC Party submits a properly executed certificate of exemption or direct pay permit. Should Marchex Local claim any deductions, tax credits or refunds for Taxes borne by the YPC Party under this Agreement, Marchex Local shall promptly reimburse the YPC Party the amount of such credits or refunds or the benefit of any such deduction Marchex Local actually receives.

5.4. * * *

6. * * *

6.1. * * *.

6.2. * * *

[* * *] 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.

(a) * * *

(b) * * *

6.3. Bankruptcy. All rights and licenses granted under or pursuant to this Agreement by Marchex Local to the YPC Parties are, and shall otherwise be deemed to be, for purposes of § 365(n) of the United States Bankruptcy Code (the "Code"), licenses to rights to "intellectual property" as defined under the Code. The Parties agree that the YPC Parties, as licensees of such rights under this Agreement, shall retain and may fully exercise all of their rights and elections under the Code. The Parties further agree that, in the event of the commencement of a bankruptcy or similar proceeding by or against Marchex Local under the Code, the YPC Parties shall be entitled to retain all of their rights under this Agreement and any Project Addendum.

7. PROPRIETARY RIGHTS

7.1. License to Advertiser URLs and Other Advertiser Information.

(a) Each YPC Party hereby grants Marchex Local a limited, non-transferable, non-exclusive, revocable license, during the Term, to * * *. The Parties shall have no right to, and shall not, add any viral, spyware or other code intended to damage software, computers or data or track User behavior in any manner other than as expressly permitted in this Agreement. Marchex Local shall not use such Advertiser URLs and/or other Advertiser Information except as required to provide the Services hereunder.

(b) * * *

7.2. * * *

7.3. Trademark License.

(a) Each Party ("**Granting Party**") grants the other Party ("**Licensee Party**") a limited, non-exclusive, nontransferable, non-sub-licensable and royalty-free license for the Term to reproduce and use the Granting Party's name, trademarks, service marks and logos, (hereinafter referred to collectively as the "**Marks**") solely for the purposes contemplated in this Agreement; provided that any such use shall be subject to the specific written prior approval of the Granting Party in each case, shall be in accordance with any guidelines for and restrictions on such use that the Granting Party may provide the Licensee Party from time to time, and, in the case of Marks of certain YPC Parties, may require mutual execution of an additional trademark license agreement. Any use by the Licensee Party of the Marks shall be accompanied by appropriate symbols, designations and notices consistent with the Granting Party's trademark policies. If the Granting Party becomes aware of any improper use by the Licensee Party of the Marks, the Granting Party will notify the Licensee Party of such improper use and the Licensee Party will promptly correct such use in a commercially reasonable manner.

(b) Each Party acknowledges and agrees that the Granting Party exclusively owns and shall continue to own exclusively all right, title and interest in and to its Marks, and the Licensee Party agrees that it will do nothing inconsistent with such ownership. All of such use of the Marks shall inure solely to the benefit of the Granting Party and shall not create any rights, title or interest in the Licensee Party in or to any of the Marks. Except as set forth in Section 7.3(a), nothing contained in this Agreement shall grant or shall be deemed to grant to the Licensee Party any right, title or interest in or to the Marks, and the Licensee Party hereby conveys to the Granting Party any such right, title or interest it may acquire. Neither Party shall engage in any trade practice,

[* * *] 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.

employment practice, or other activity which is harmful to the goodwill associated with the Marks, or that reflects unfavorably on the reputation of either Party, its Affiliates or their respective products and services, or which constitutes deceptive or unfair competition, consumer fraud or misrepresentation. Except as expressly permitted in this Agreement, neither Party shall use or attempt to register any of the other Party's Marks or any confusingly similar mark, or any modified form, as an Internet domain name in the USA or anywhere else in the world. Neither Party shall create a combination mark or logo using its name with the other Party's Marks or use the licensor Party's Marks in any modified form or as part of any other Internet domain name in the USA or anywhere else in the world.

7.4. Reservation of Rights. Except as expressly provided herein, this Agreement is not intended to, and shall not, affect the ownership by any Party of any of its Intellectual Property Rights, content, products and services, and this Agreement shall not be construed as the assignment or transfer of any ownership rights in any of the foregoing from any Party to another. Except as expressly provided herein, this Agreement shall not be deemed a license (by implication, estoppel, or otherwise) under any Party's patent rights or other Intellectual Property Rights. The Parties reserve all rights not expressly granted under this Agreement.

8. CONFIDENTIALITY

8.1. Confidential Information. For purposes of this Agreement and any Project Addendum, the term **"Confidential Information"** shall mean all technical, business, and other information of Marchex Local disclosed to or obtained by a YPC Party, or of a YPC Party disclosed to or obtained by Marchex Local, in connection with this Agreement or any Project Addendum, whether prior to, on or after the date of this Agreement, that derives economic value, actual or potential, from not being generally known to others, including, without limitation, any technical or non-technical data, designs, methods, techniques, drawings, processes, products, inventions, improvements, methods or plans of operation, research and development, business plans and financial information of such Party.

8.2. Use and Disclosure. No Party shall use (except to fulfill the Party's obligations under this Agreement) or disclose to any third person any Confidential Information disclosed to or obtained by that Party from another Party. Each Party shall be directly responsible for any unauthorized use or disclosure of another Party's Confidential Information by its employees, agents or contractors.

8.3. Legally Compelled Disclosure. If any Party becomes legally compelled to disclose any Confidential Information of another Party (whether by judicial or administrative order, applicable law, rule or regulation, or otherwise), that Party shall use all reasonable efforts to provide the other Party with prior notice thereof so that the other Party may seek a protective order or other appropriate remedy to prevent such disclosure. If such protective order or other remedy is not obtained prior to the time such disclosure is required, the Party required to make the disclosure will only disclose that portion of such Confidential Information which it is legally required to disclose.

8.4. * * *

8.5. Confidentiality of Platform. Information regarding the Platform is the Confidential Information of Marchex. * * *

8.6. Exceptions. The restrictions contained in this Section 8 shall not apply to any information that: (a) was publicly available or otherwise known to the receiving Party at the time of disclosure, (b) subsequently becomes publicly available through no act or omission by the receiving Party or any of its employees, agents or contractors, (c) is or has been independently developed by the receiving Party without violation of this Agreement, (d) is lawfully obtained by the receiving Party from a third party without any obligation of confidentiality, or (d) is generally made available by the disclosing Party to third parties without any restriction on disclosure.

8.7. * * *

9. REPRESENTATIONS AND WARRANTIES

9.1. Representations and Warranties of Marchex Local.

(a) Marchex Local represents and warrants that as of the Effective Date and at all times throughout the Term: * * * Marchex makes no representations or warranties for any purposes, whether hereunder or with respect to any Search Engines or third parties, with respect to any Advertiser, its business or operations, the Advertiser Information a YPC Party or any third party provides to Marchex Local, or the Advertiser Web Site.

(b) * * *

(c) * * *

(d) Marchex Local shall promptly notify YPC in writing in the event it becomes aware of any breach of any of the foregoing representations and warranties set forth in this Section 9.1.

9.2. YPC Parties' Warranties. Subject to the limitations set forth in Section 2.1, YPC represents and warrants to Marchex Local, and each other YPC Party separately represents and warrants to Marchex Local by entering into a Project Addendum, that as of the Effective Date and at all times throughout the Term: * * * A YPC Party shall promptly notify Marchex Local in writing in the event it becomes aware of any breach of any of the foregoing representations and warranties.

9.3. Warranty Disclaimers.

(a) * * *

(b) * * *

10. * * *

10.1. * * *

10.2. * * *

10.3. * * *

11. LIMITATION OF LIABILITY

11.1. * * *

12. TERM AND TERMINATION

12.1. Term. The term of this Agreement shall commence on the Effective Date, and shall continue, unless earlier terminated as provided below, through * * * ("Initial Term"). Following the Initial Term, this Agreement shall renew automatically for successive one (1) year periods * * *

12.2. Termination for Breach. Any Party to a Project Addendum may terminate the Project Addendum by written notice to the other Party upon the occurrence of any of the following events: (a) the other Party commits a material breach of the Project Addendum (or any terms of this Agreement as they relate to the Project Addendum) and such breach remains uncured for thirty (30) days following written notice of breach by the terminating party; or (b) the other Party experiences a Bankruptcy Event.

12.3. Effect of Expiration or Termination. Sections 1, 2.1, 2.3, 5.4, 6.3, 7.1(b), 7.2, 7.3(b), 7.4, 8, 9.3, 10, 11, 12.3 and 14, and any remedies set forth in the Exhibits, if any, shall survive any expiration or termination of this Agreement, and all other rights and licenses shall terminate. In addition, notwithstanding any termination or expiration of this Agreement or any Project Addendum, upon request of a YPC Party, Marchex Local shall continue to provide Services for any and all Advertising Packages issued by a YPC Party prior to such expiration or termination and Sections 4 and 5 shall survive with respect thereto.

13. * * *

14. MISCELLANEOUS

14.1. Compliance with Laws. Each Party shall comply with all applicable laws, rules and regulations in the performance of this Agreement and any Project Addendum, including, without limitation, any applicable laws, rules and regulations concerning the collection, use and distribution of information collected via the Internet. * * *

14.2. Force Majeure. No Party shall be liable to the other for any default or delay in the performance of any of its obligations under this Agreement or any Project Addendum if such default or delay is caused, directly or indirectly, by any cause beyond such Party's reasonable control (each, a "**Force Majeure Event**"); provided, however, that the Party affected by the Force Majeure Event shall provide the other Party with prompt written notice of the Force Majeure Event and use commercially reasonable efforts to minimize the effect of the Force Majeure Event upon such Party's performance; provided, further, that should the performance by any Party of its obligations under this Agreement and/or any Project Addendum be prevented by a Force Majeure Event for more than sixty (60) days, the other Party shall have the right to terminate the affected Project Addendum without liability to the non-performing Party (except payment obligations for performance prior to the Force Majeure Event).

14.3. * * *

14.4. * * *

14.5. Assignment. * * *All terms and provisions of this Agreement and all related Project Addenda will be binding upon and inure to the benefit of the Parties hereto and their respective permitted transferees, successors and assigns. Any attempt to assign other than in accordance with this provision shall be null and void.

[* * *] 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.

14.6. Notice. Unless otherwise specified herein, all notices, invoices and other communications required or permitted to be given or made hereunder or under any Project Addendum shall be in writing and delivered personally or sent by pre-paid, first class certified or registered mail, return receipt requested, or by facsimile transmission, to the intended recipient thereof at such Party's address or facsimile number set out below. Any such notice or communication shall be deemed to have been duly given: (a) immediately (if given or made in person or by facsimile confirmed by mailing a copy thereof to the recipient in accordance with this Section 14.6 on the date of such facsimile); (b) on the second business day after delivery to a recognized overnight express courier service; or (c) five days after mailing (if given or made by mail), and in proving same it shall be sufficient to show that the envelope containing the same was delivered to the courier or postal service and duly addressed, or that receipt of a facsimile was confirmed by the recipient as provided above. The addresses and facsimile numbers of the Parties for purposes of this Agreement are:

YPC:

YellowPages.com LLC
Attn: Vice President-Strategy
611 N. Brand Blvd., Room 508
Glendale, CA 91203
Fax: (818) 247-7273

With a copy to:

YellowPages.com LLC
Attn: General Counsel
611 N. Brand Blvd., Room 520
Glendale, CA 91203
Fax: (818) 247-7273

Marchex Local:

MDNH, Inc.
Attn: President
101 Convention Center Drive Suite 330
Las Vegas, NV 89109
Fax: (702) 784-1780

With a copy to:

Marchex, Inc.
Attn: General Counsel
413 Pine Street, Suite 500
Seattle, WA 98101
Fax: (206) 331-3696

Either Party may change the address to which notices or other communications to such Party shall be delivered or mailed by giving notice thereof to the other Party hereto in the manner provided herein.

14.7. Independent Contractors * * *. The Parties acknowledge that, except as expressly provided in this Agreement, the relationship of the YPC Parties on the one hand and Marchex Local on the other is that of independent contractors and nothing contained in this Agreement or any Project Addendum shall be construed to place any YPC Party and Marchex Local in the relationship of principal and agent, master and servant, partners or joint venturers. Except as expressly provided in this Agreement, neither the YPC Parties on the one hand nor Marchex Local on the other shall have, expressly or by implication, or represent itself as having, any authority to make contracts or enter into any agreement in the name of the other Party, or to obligate or bind the other Party in any manner whatsoever. * * *

14.8. Amendment; Waiver. No amendment of any provision of this Agreement shall be effective unless set forth in a writing signed by a representative of YPC and Marchex Local, and then only to the extent specifically set forth therein. Similarly, no amendment of any provision of any Project Addendum shall be effective unless set forth in a writing signed by a representative of the applicable YPC Party and Marchex Local, and then only to the extent specifically set forth therein. No course of dealing on the part of any Party, nor any failure or delay by any Party with respect to exercising any of its rights, powers or privileges under this Agreement, any Project Addendum or law shall operate as a waiver thereof. No waiver by any Party of any condition or the breach of any provision of this Agreement or any Project Addendum in any one or more instances shall be deemed a further or continuing waiver of the same or any other condition or provision.

14.9. * * *

[* * *] 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.

14.10. Choice of Law; Consent to Jurisdiction and Venue. This Agreement and each Project Addendum shall be governed by the laws of the State of New York, without regard to its conflict of law rules. Any claims or litigation arising under this Agreement will be brought by the Parties solely in the Federal courts in the Southern District of New York or the State courts in New York County, New York. The Parties hereby expressly agree, consent and submit to the exclusive personal jurisdiction of such courts, and the Parties also consent, submit to and agree that venue in such claims or litigation is proper in said courts and county and the Parties hereby expressly waive any and all rights under applicable law or in equity to object to the jurisdiction and venue in said courts and county.

14.11. * * *

14.12. Entire Agreement. This Agreement, together with the Project Addenda and the Exhibits hereto, all of which are incorporated herein and made part hereof by this reference, embodies the entire agreement between the Parties with respect to the subject matter hereof and thereof, and supersedes all prior agreements and understandings between the Parties relating to the subject matter hereof and thereof. No representation, promise or inducement has been made by the Parties which is not embodied in this Agreement.

14.13. Severability. All rights and restrictions contained herein and in any Project Addendum may be exercised and shall be applicable and binding only to the extent that they do not violate any applicable laws and are intended to be limited to the extent necessary to render this Agreement legal, valid and enforceable. If any term of this Agreement, any Project Addendum or part thereof, not essential to the commercial purpose of this Agreement or such Project Addendum shall be held to be illegal, invalid or unenforceable, it is the intention of the Parties that the remaining terms hereof or such Project Addendum, or part thereof shall constitute their agreement with respect to the subject matter hereof and thereof and all such remaining terms, or parts thereof, shall remain in full force and effect. To the extent legally permissible, any illegal, invalid or unenforceable provision of this Agreement or any Project Addendum shall be replaced by a valid provision which will implement the commercial purpose of the illegal, invalid or unenforceable provision.

14.14. Mitigation of Damages. Each Party shall use good faith commercially reasonable efforts to minimize its damages and the other Party's liability arising from or in connection with this Agreement and any Project Addendum.

14.15. Headings. The headings contained in this Agreement and any Project Addendum are for convenience of reference only and are not intended to have any substantive significance in interpreting this Agreement or such Project Addendum.

14.16. Counterparts; Facsimile. This Agreement and any Project Addendum may be executed in any number of counterparts, each of which will be deemed an original and all of which together will constitute one and the same instrument. This Agreement, any Project Addendum and any written amendments hereto or thereto, may be executed by facsimile.

[* * *] 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.

IN WITNESS WHEREOF, YPC and Marchex Local have caused this Agreement to be executed by their duly authorized agents.

YELLOWPAGES.COM LLC		**MDNH, INC.**	
By:	/s/ Charles Stubbs	By:	/s/ Brendhan Hight
Name:	Charles Stubbs	Name:	Brendhan Hight
Title:	CEO	Title:	Executive Officer, MDNH, Inc.
Date:	10/09/07	Date:	10/10/07

[* * *] 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.

EXHIBIT A

* * *

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[* * *] 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.

EXHIBIT B

* * *

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[* * *] 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.

EXHIBIT C

* * *

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[* * *] 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.

EXHIBIT D

* * *

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[* * *] 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.

Exhibit 10.32

Marchex, Inc.

2004 EMPLOYEE STOCK PURCHASE PLAN

As amended on December 20, 2012

1. Purpose.

It is the purpose of this Employee Stock Purchase Plan to provide a means whereby eligible employees may purchase Class B common stock of Marchex, Inc. (the "Company") through after-tax payroll deductions. It is intended to provide a further incentive for employees to promote the best interests of the Company and to encourage stock ownership by employees in order that they may participate in the Company's economic growth. It is the intention, but not the obligation, of the Company that the Plan qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code, and that the provisions of this Plan be construed in a manner consistent with the Code.

2. Definitions.

The following words or terms, when used herein, shall have the following respective meanings:

(a) "Account" means the Employee Stock Purchase Account established for a Participant under Section 7 hereunder.

(b) "Board of Directors" shall mean the Board of Directors of the Company.

(c) "Code" shall mean the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

(d) "Committee" shall mean the committee described in Section 5.

(e) "Common Stock" shall mean shares of the Company's Class B common stock with a par value of $.01 per share.

(f) "Company" shall mean Marchex, Inc., a Delaware corporation.

(g) "Compensation" means the amount of money reportable on the employee's Federal Income Tax Withholding Statement, excluding overtime, shift premium, incentive or bonus awards, allowances and reimbursements for expenses such as relocation allowances for travel expenses, income or gains on the exercise of Company stock options or stock appreciation rights, and similar items, whether or not shown on the employee's Federal Income Tax Withholding Statement. Notwithstanding the foregoing, the Board of Directors or Committee in its sole discretion from time to time may substitute another definition of compensation to be eligible to be taken into account under the Plan, provided that no such determination shall include or exclude any type or amount of Compensation contrary to the requirements of Section 423 of the Code.

(h) “Effective Date” shall mean the first date that the Company’s Common Stock is publicly traded as a result of the Company’s initial underwritten public offering (“IPO”) of shares of its Common Stock, with gross proceeds in excess of $20 million, pursuant to an effective registration statement filed by the Company under the Securities Act of 1933, as amended.

(i) “Eligible Employees” shall mean all persons employed by the Company or a Subsidiary and classified by the Company or the Subsidiary as an employee for federal income tax withholding purposes, but excluding:

(1) Persons who have been employed by the Company or a Subsidiary for less than three months on the first day of the Purchase Period, with the exception of a person previously eligible;

(2) Persons whose customary employment is less than twenty hours per week or five months or less per year; and

(3) Persons who are deemed for purposes of Section 423(b)(3) of the Code to own stock possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or a Subsidiary.

Except as otherwise provided in Section 12, for purposes of the Plan, the employment relationship shall be treated as continuing intact while an individual is on military leave or other leave of absence approved by the Company or a Subsidiary. Where the period of leave exceeds 90 days and the individual’s right to re-employment is not guaranteed either by statute or by contract, the employment relationship shall be deemed to have terminated on the 91st day of such leave.

(j) “Exercise Date” shall mean the last day of a Purchase Period; provided, however, that if such date is not a business day, “Exercise Date” shall mean the immediately preceding business day.

(k) “Participant” shall mean an Eligible Employee who elects to participate in the Plan under Section 6 hereunder.

(l) “Plan” shall mean the Marchex, Inc. 2004 Employee Stock Purchase Plan, as amended to date.

(m) “Purchase Periods” shall mean the four purchase periods within each calendar year, the first commencing on January 1st of each calendar year and continuing through the March 31st of such calendar year, the second commencing on April 1st of each calendar year and continuing through June 30th of such calendar year, the third commencing on July 1st of each calendar year and continuing through the September 30th of such

calendar year, and the fourth commencing on October 1st of each calendar year and continuing through December 31st of such calendar year. However, the first Purchase Period shall commence on the first date that the Common Stock is publicly traded as a result of the Company's IPO and shall end on the last day of the quarter in which the IPO occurs.

(n) "Purchase Price" for each share purchased shall be 85% of the closing price of the Common Stock on (i) the first business day of such relevant Purchase Period, or (ii) the relevant Exercise Date, whichever closing price shall be less. Notwithstanding the foregoing, effective January 1, 2006, the "Purchase Price" for each share purchased shall be 95% of the closing price of Common Stock on the Exercise Date. Such closing price shall be (a) the closing price on any national securities exchange on which the Common Stock is listed, (b) the closing price of the Common Stock on the Nasdaq Global Market, or (c) the average of the closing bid and asked prices in the over-the-counter-market, whichever is applicable, as published in The Wall Street Journal; provided, however, that, with respect to the first Purchase Period, the closing price on the Effective Date shall be the initial public offering price provided for in the underwriting agreement entered into by the Company in connection with the IPO. If no sales of Common Stock were made on such a day, the price of the Common Stock for purposes of clauses (a) and (b) above shall be the reported price for the next preceding day on which sales were made.

(o) "Subsidiary" shall mean any present or future corporation which (i) would be a subsidiary corporation as defined in Section 424(f) of the Code, and (ii) is designated by the Board of Directors as a participating employer for purposes of this Plan.

3. Grant of Option to Purchase Shares.

Each Eligible Employee shall be granted an option ("Option") effective on the first day of each Purchase Period to purchase shares of Common Stock. The term of the Option shall be the length of the Purchase Period. The number of shares subject to each Option shall be the quotient of the aggregate payroll deductions in the Purchase Period authorized by each Participant in accordance with Section 6 divided by the Purchase Price, but in no event shall the number of shares subject to each Option be in excess of 1,000 shares per Purchase Period (subject to adjustment in accordance with Section 4), or such other number of shares as determined from time to time by the Board of Directors or the Committee. Notwithstanding the foregoing, no employee shall be granted an Option which permits his right to purchase shares under the Plan to accrue at a rate which exceeds in any one calendar year $25,000 (or such other amount as may be prescribed from time to time under Section 423 of the Code) of the fair market the value of the Common Stock as of the date the Option to purchase is granted.

4. Shares.

Subject to adjustment upon changes in capitalization of the Company as provided this Section 4, the maximum number of shares of Common Stock which shall be made available for issuance to and purchase by Participants under this Plan shall be 300,000 shares. The shares of Common Stock subject to the Plan shall be either shares of authorized but unissued Common Stock or

shares of Common Stock reacquired by the Company and held as treasury shares. Shares of Common Stock not purchased under an Option terminated pursuant to the provisions of the Plan may again be subject to Options granted under the Plan. The aggregate number of shares of Common Stock which may be purchased pursuant to Options granted hereunder, the number of shares of Common Stock covered by each outstanding Option, and the purchase price for each such Option shall be appropriately adjusted for any increase or decrease in the number of outstanding shares of Common Stock resulting from a stock split or other subdivision or consolidation of shares of Common Stock or for other capital adjustments or payments of stock dividends or distributions or other increases or decreases in the outstanding shares of Common Stock effected without receipt of consideration by the Company provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board of Directors whose determination in that respect shall be binding and conclusive.

5. Administration.

The Plan shall be administered by the Board of Directors or a Committee (which may be the same committee as the Company's compensation committee) as may be appointed from time to time by the Board of Directors. Committee members shall be ineligible to participate under the Plan. All members of the Committee shall serve at the discretion of the Board. The Board of Directors or the Committee, if one has been appointed, is vested with full authority to interpret the terms of the Plan, to remedy any ambiguity, inconsistency, or omission, and to make, administer and interpret such equitable rules and regulations regarding the Plan as it may deem advisable. The Board of Directors, or the Committee's, if one has been appointed, determinations as to the interpretation and operation of the Plan shall be final, binding and conclusive. No member of the Board of Directors or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Option granted under the Plan.

6. Election to Participate.

An Eligible Employee may elect to become a Participant in the Plan for a Purchase Period by completing a "Stock Purchase Agreement" form prior to the first day of the Purchase Period for which the election is made. Such Stock Purchase Agreement shall be in such form as shall be determined from time to time by the Board of Directors or the Committee. The election to participate shall be effective for the Purchase Period for which it is made. The Stock Purchase Agreement shall remain in effect for successive Purchase Periods unless modified as provided in Section 9 or terminated or suspended as provided in Sections 11 and 12. There is no limit on the number of Purchase Periods for which an Eligible Employee may elect to become a Participant in the Plan. In the Stock Purchase Agreement, the Eligible Employee shall authorize regular payroll deductions of any full percentage of his Compensation, but in no event less than one percent (1%) or more than fifteen percent (15%) of his Compensation. Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3 herein, a Participant's payroll deductions may be decreased during any Purchase Period scheduled to end during the current calendar year to 0%. Payroll deductions shall re-commence at the rate provided in such Participant's Stock Purchase Agreement at the beginning of the first Purchase Period that is scheduled to end in the following calendar year, unless terminated by the

Participant as provided in Section 9. Except as otherwise provided in Section 9, an Eligible Employee may not change his authorization during a Purchase Period to which the election applies. Options granted to Eligible Employees who have failed to execute a Stock Purchase Agreement within the time periods prescribed by the Plan will automatically lapse.

7. Employee Stock Purchase Account.

An Employee Stock Purchase Account will be established for each Participant in the Plan for bookkeeping purposes, and payroll deductions made under Section 6 will be credited to such Accounts. However, prior to the purchase of shares in accordance with Section 8 or withdrawal from or termination of the Plan in accordance with the provisions hereof, the Company may use for any valid corporate purpose all amounts deducted from a Participant's compensation under the Plan and credited for bookkeeping purposes to his account. The Company shall be under no obligation to pay interest on funds credited to a Participant's account, whether upon purchase of shares in accordance with Section 8 or upon distribution in the event of withdrawal from or termination of the Plan as herein provided.

8. Purchase of Shares.

Each Eligible Employee who is a Participant in the Plan automatically and without any act on his part will be deemed to have exercised his Option on each Exercise Date to the extent that the balance then in his Account under the Plan is sufficient to purchase at the Purchase Price whole shares of the Company's stock subject to his Option and the limitations described in Section 3. Any balance remaining in the Participant's Account shall be refunded to the Participant in cash.

9. Withdrawal.

A Participant who has elected to authorize payroll deductions for the purchase of shares of Common Stock may cancel his election by written notice of cancellation ("Cancellation") delivered to the office or person designated by the Company to receive Stock Purchase Agreements, but any such Cancellation must be so delivered not later than ten (10) days before the relevant Exercise Date. A Participant will receive in cash, as soon as practicable after delivery of the Cancellation, the amount credited to his Account. Any Participant who so withdraws from the Plan may again become a Participant at the start of the next Purchase Period in accordance with Section 6.

10. Issuance of Stock Certificates.

The shares of Common Stock purchased by a Participant shall, for all purposes, be deemed to have been issued and sold at the close of business on the Exercise Date. Prior to that date none of the rights or privileges of a stockholder of the Company, including the right to vote or receive dividends, shall exist with respect to such shares.

Within a reasonable time after the Exercise Date, the Company shall issue and deliver a certificate for the number of shares of Common Stock purchased by a Participant for the

Purchase Period, which certificate shall be registered either in the Participant's name, or jointly in the names of the Participant and his spouse, as the Participant shall designate in his Stock Purchase Agreement. Such designation may be changed at any time by filing notice thereof with the person designated by the Company to receive such notices. In the alternative, the Company may provide for uncertificated, book entry issuance of the shares of Common Stock purchased under the Plan.

11. Termination of Employment.

Upon a Participant's termination of employment for any reason, other than death, no payroll deduction may be made from any compensation due him and the entire balance credited to his Account shall be automatically refunded, and his rights under the Plan shall terminate. Upon the death of a Participant, no payroll deduction shall be made from any compensation due him at time of death, and the entire balance in the deceased Participant's Account shall be paid in cash to the Participant's designated beneficiary, if any, under a group insurance plan of the Company covering such employee, or otherwise to his estate, and his rights under the Plan shall terminate.

12. Temporary Layoff and Authorized Leave of Absence; Long Term Disability.

Except as otherwise provided by applicable law, payroll deductions shall cease during a period of absence from work due to a Participant's temporary layoff, authorized leave of absence without pay, or disability for which benefits are not payable from the Company. If such Participant shall return to active service prior to the Exercise Date for the current Purchase Period, payroll deductions shall be resumed. He shall not be entitled to make up the deficiency in his Account caused by his absence and, accordingly, the number of shares to be purchased shall be reduced. If the Participant shall not return to active service prior to the Exercise Date for the current Purchase Period, and the Participant was absent for more than fifty percent (50%) of the weeks in the Purchase Period, his Stock Purchase Agreement shall be terminated and the balance in his Account shall be refunded. All other Participants will have an option to cancel their election in accordance with Section 9.

13. Rights Not Transferable; Restrictions on Transfer.

The right to purchase shares of Common Stock under this Plan is exercisable only by the Participant during his lifetime and is not transferable by him. If a Participant attempts to transfer his right to purchase shares under the Plan, he shall be deemed to have requested withdrawal from the Plan and the provisions of Section 9 hereof shall apply with respect to such Participant.

14. No Guarantee of Continued Employment.

Granting of an Option under this Plan shall imply no right of continued employment with the Company for any Eligible Employee.

15. Notice.

Any notice which an Eligible Employee or Participant files pursuant to this Plan shall be in writing and shall be delivered personally or by mail addressed to the Company's General Counsel, c/o Marchex, Inc., 520 Pike Street, Suite 2000, Seattle, Washington 98101. Any notice to a Participant or an Eligible Employee shall be conspicuously posted in the Company's principal office or shall be mailed addressed to the Participant or Eligible Employee at the address designated in the Stock Purchase Agreement or in a subsequent writing.

16. Merger.

(a) If the Company shall at any time merge or consolidate with another corporation and the holders of the capital stock of the Company immediately prior to such merger or consolidation continue to hold at least 80% by voting power of the capital stock of the surviving corporation ("Continuity of Control"), the holder of each Option then outstanding will thereafter be entitled to receive at the next Exercise Date upon the exercise of such Option for each share as to which such Option shall be exercised the securities or property which a holder of one share of the Common Stock was entitled to upon and at the time of such merger or consolidation, and the Board of Directors or the Committee shall take such steps in connection with such merger or consolidation as the Board of Directors or the Committee shall deem necessary to assure that the provisions of Section 4 shall thereafter be applicable, as nearly as reasonably may be, in relation to the said securities or property as to which such holder of such Option might thereafter be entitled to receive thereunder.

(b) In the event of a merger or consolidation of the Company with or into another corporation which does not involve Continuity of Control, or of a sale of all or substantially all of the assets of the Company while unexercised Options remain outstanding under the Plan, the Board of Directors or Committee, in its sole discretion, may provide that (i) subject to the provisions of clauses (ii) and (iii), after the effective date of such transaction, each holder of an outstanding Option shall be entitled, upon exercise of such Option, to receive in lieu of shares of Common Stock, shares of such stock or other securities as the holders of shares of Common Stock received pursuant to the terms of such transaction; or (ii) all outstanding Options shall be cancelled as of a date prior to the effective date of any such transaction and all payroll deductions shall be paid out to the participating employees; or (iii) the Exercise Date of the then current Purchase Period shall be accelerated to a date prior to the effective date of any such transaction. All Options not assumed, terminated, or exercised before the effective date of any such transaction shall terminate on the effective date of such transaction.

17. Application of Funds.

All funds deducted from a Participant's compensation in payment for shares purchased or to be purchased under this Plan may be used for any valid corporate purpose provided that the Participant's Account shall be credited with the amount of all payroll deductions as provided in Section 7.

18. Government Approvals or Consents.

This Plan and the Company's obligation to sell and deliver Common Stock under this Plan is subject to listing on a national stock exchange or quotation on the Nasdaq Global Market (to the extent the Common Stock is then so listed or quoted) and the approval of all governmental authorities required in connection with the authorization, issuance or sale of such stock. Subject to the provisions of Section 19, the Board of Directors may make such changes in the Plan and include such terms in any offering under this Plan as may be necessary or desirable, in the opinion of counsel, to comply with the rules or regulations of any governmental authority, or to be eligible for tax benefits under the Code or the laws of any state, or in the opinion of the Company's auditors, to eliminate or reduce any unfavorable financial accounting consequences.

19. Amendment of the Plan.

The Board of Directors may, without the consent of the Participants, amend the Plan at any time, provided that, except as otherwise provided in this Plan, no such action shall adversely affect Options theretofore granted hereunder and if the approval of any such amendment by the stockholders of the Company is required by Section 423 of the Code, such amendment will not be effected without such approval. For purposes of this Section 19, termination of the Plan by the Board of Directors pursuant to Section 20 shall not be deemed to be an action which adversely affects Options theretofore granted hereunder.

20. Term of the Plan.

The Plan shall become effective on the Effective Date. The Plan will terminate on the date which is ten years from the earlier of the date of its adoption and the date of its approval by the stockholders of the Company, provided, however, that the Board of Directors shall have the right to terminate the Plan at any time. In the event of the expiration of the Plan or its termination, all Options then outstanding under the Plan shall automatically be canceled and the entire amount credited to the Account of each Participant hereunder shall be refunded to each such Participant without interest.

21. Notice to Company of Disqualifying Dispositions.

By electing to participate in the Plan, each Participant agrees to notify the Company in writing immediately after the Participant transfers Common Stock acquired under the Plan, if such transfer occurs within two years after the first business day of the Purchase Period in which such Common Stock was acquired. Each Participant further agrees to provide any information about such a transfer as may be requested by the Company or any Subsidiary in order to assist it in complying with any applicable tax laws. The Participant acknowledges that the Company may send a W-2, or substitute therefor, as appropriate, to the Participant with respect to any income recognized by the Participant upon a disqualifying disposition of Common Stock.

22. Withholding of Taxes.

Each Participant must make adequate provision for the Company's federal, state or other tax withholding obligations, if any, which may arise upon the exercise of the Option or the disposition of the Common Stock. At any time, the Company may, but shall not be obligated to,

withhold from the Participant's compensation the amount necessary for the Company to meet applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Participant.

23. General.

Whenever the context of this Plan permits, words in any gender shall include any other gender, words in the singular shall include the plural and the plural shall include the singular.

24. Governing Law.

The internal substantive laws of the State of Delaware shall govern all matters relating to this Plan.

Exhibit 21.1

List of Subsidiaries of the Registrant

	Name	Jurisdiction
1.	Marchex Paymaster, LLC	Delaware
2.	goClick.com, Inc.	Delaware
3.	Marchex, LLC	Delaware
4.	Marchex Sales, LLC	Delaware
5.	Marchex CAH, Inc.	Delaware
6.	Marchex CA Corporation	Nova Scotia
7.	Marchex International, Ltd.	Ireland
8.	Marchex Voice Services, Inc.	Pennsylvania
9.	Marchex Europe Limited	United Kingdom
10.	Jingle Networks, Inc.	Delaware
11.	Archeo, Inc.	Delaware

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, 333-172967, 333-180212 and 333-181327) of Marchex, Inc. of our reports dated March 12, 2013, with respect to the consolidated balance sheets of Marchex, Inc. as of December 31, 2011 and 2012, 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, 2012, and the effectiveness of internal control over financial reporting as of December 31, 2012, which reports appear in the December 31, 2012 annual report on Form 10-K of Marchex, Inc.

/s/ KPMG LLP

Seattle, Washington
March 12, 2013

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, 2013

/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, 2013

/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, 2012 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, 2013

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

Dated: March 12, 2013

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