



## Marchex Reports Third Quarter 2010 Financial Results

November 4, 2010

**SEATTLE - November 4, 2010** - Marchex, Inc. (NASDAQ: MCHX) today reported its results for the third quarter of 2010 ended September 30, 2010.

### Third Quarter 2010 Consolidated Financial Results:

- Revenue was \$24.2 million for the third quarter of 2010, compared to \$22.2 million for the same period of 2009.
- GAAP net loss applicable to common stockholders was \$547,000 for the third quarter of 2010 or \$0.02 per diluted share. This compares to GAAP net income applicable to common stockholders of \$696,000 or \$0.02 per diluted share for the same period of 2009. The third quarter 2010 results included non-cash stock-based compensation expense of \$2.9 million, compared to non-cash stock-based compensation expense of \$2.3 million for the same period in 2009.
- We provide a reconciliation of GAAP diluted EPS to Adjusted non-GAAP EPS in the financial tables attached to this press release and encourage investors to examine the reconciling adjustments between the GAAP and non-GAAP measures. Adjusted non-GAAP income for the third quarter of 2010 was \$0.01, compared to Adjusted non-GAAP income of \$0.03 for the same period of 2009. Some Wall Street analysts use non-GAAP measures to analyze our operating results, which may include adjusted non-GAAP EPS, adjusted operating income before amortization and adjusted EBITDA. We present GAAP measures with equal or greater prominence than non-GAAP measures and such non-GAAP measures should not be considered a substitute for, or superior to, GAAP measures.
- Adjusted operating income before amortization was \$455,000 for the third quarter of 2010, compared to \$1.9 million for the same period of 2009. A reconciliation of non-GAAP adjusted operating income before amortization to GAAP operating income and GAAP net income is included in the financial tables attached to this release. Adjusted EBITDA was \$1.7 million in the third quarter of 2010, compared to \$3.4 million for the same period of 2009. A reconciliation of adjusted EBITDA to GAAP net cash provided by operating activities is included in the financial tables attached to this release.

"Nearly everything we do is driven by our fundamental belief that performance-based Call Advertising represents the next transformational opportunity in advertising, and our progress this quarter demonstrates that our focus on category leadership is beginning to pay off," said Russell C. Horowitz, Marchex Chairman and CEO. "From advertisers to sources of call supply, Marchex is focused on forging the right relationships and continuing to build momentum in our business."

### Operating Highlights:

**Local Advertising Services:** For the third quarter of 2010, revenue from Local Advertising Services, which includes Marchex's Call Advertising and Small Business Marketing products, was \$18 million. In the third quarter Marchex added more than 10,000 new advertisers utilizing its call advertising and small business marketing products and ended the quarter with more than 85,000 advertisers. Marchex expects to continue growing its advertiser base in 2010.

**Publishing:** For the third quarter of 2010, revenue from Publishing, which is Marchex's proprietary local and category websites that fulfill advertiser campaigns, was \$6.2 million.

### General Business Highlights:

- 1 Marchex launched Call Mining as a feature within the Marchex Call Analytics product. Call Mining leverages speech transcription and proprietary search and data mining technology to enable advertisers to analyze and discover new ways to optimize their cross-channel marketing spend, based on actual customer conversations.
- 2 Marchex recently entered into a multi-year strategic relationship with Skype. The agreement enables Marchex to exclusively manage, operate and sell Click & Call Advertising, a pay-for-call program, with Skype directly to advertisers across the U.S., Canada and Western Europe.
- 3 During the third quarter of 2010, Marchex sold a small number of non-strategic domains that yielded \$2.6 million.
- 4 During the third quarter of 2010, Marchex purchased 282,000 shares of its outstanding Class B common stock for a total price of \$1.2 million, bringing its total shares repurchased under its stock repurchase program to 9.7 million shares, or 28% of its outstanding common stock.

### Marchex Financial Guidance:

The following forward-looking statements reflect Marchex's expectations as of November 4, 2010.

Following is a summary financial guidance table for Marchex's fiscal year 2010 and the third quarter of 2010, reflecting the impact

of its strategic deal with AT&T Interactive:

**Guidance for fiscal year 2010:**

<b>Revenue estimate (reflecting the impact of up to \$7.8 million in AT&amp;T Interactive investment incentive offsets as described below)</b>	\$95.5 million to \$97.5 million
<b>Adjusted Operating Income Before Amortization estimate (reflecting the impact of up to \$7.8 million in AT&amp;T Interactive investment incentive offsets as described below):</b>	More than \$2.6 million
<b>Adjusted EBITDA:</b>	Estimated add-backs of approximately \$4.9 million in additional depreciation and amortization to adjusted operating income before amortization, implying an adjusted EBITDA of more than \$7.5 million.

**Guidance for fourth quarter 2010:**

<b>Revenue estimate (reflecting the impact of \$1 million in AT&amp;T Interactive investment incentive offsets as described below):</b>	\$25.9 million-\$27.9 million
<b>Adjusted Operating Income Before Amortization (reflecting the impact of \$1 million in AT&amp;T Interactive investment incentive offsets as described below):</b>	More than \$1.9 million
<b>Adjusted EBITDA:</b>	Estimated add-backs of approximately \$1.0 million in additional depreciation and amortization to adjusted operating income before amortization, implying an adjusted EBITDA of more than \$2.9 million.

"We continue to build momentum with our Call Advertising products by establishing direct relationships with large advertisers as well as through our products that target small businesses. This ongoing progress will drive higher sequential revenue, adjusted operating income before amortization and adjusted EBITDA for the fourth quarter of 2010. We believe our ongoing progress is setting a strong foundation for continued growth into 2011," said Michael Arends, Marchex Chief Financial Officer.

Marchex anticipates revenue from proprietary traffic sources for the fourth quarter of 2010 to modestly increase relative to the third quarter. Marchex expects revenue volatility from proprietary traffic sources due to the nature of large advertiser spending as we continue to build our efforts to diversify advertisers in this revenue source.

**AT&T Interactive Agreement and Financial Impact:**

Marchex recently extended and expanded its agreement with AT&T Interactive that contemplates the following:

- The consolidation of all AT&T Interactive SMB (small-and-medium sized business) and certain national search-based performance marketing programs to Marchex;
- A multi-year contract extension with product exclusivity through the majority of the term, which now extends the 2011 contract expiration out through mid-2015;
- Transitioning all existing and renewing customers in search-based performance marketing programs from other providers to Marchex primarily over the next 9 months; and all new customers to Marchex.

The following reflects Marchex's expectations for its AT&T Interactive relationship as of November 4, 2010.

Marchex's expanded relationship with AT&T Interactive is estimated to yield more than \$100 million in revenue to Marchex over the next five years. As part of the transition program, Marchex is providing AT&T Interactive an

estimated \$7.8 million in 2010 deal-related financial incentives to drive accelerated advertiser migration to Marchex that commenced in May, 2010. Marchex estimates investment incentives of \$4.2 million, \$2.6 million and \$1 million, respectively, for the second, third and fourth quarters of 2010. When considering the deal-related financial incentives and the timing of the advertiser migrations, in comparison to its 2010 first quarter results, Marchex sees the net impact as dilutive to financial results through the fourth quarter of 2010, and accretive to its financial results starting in the first quarter of 2011, with significant growth thereafter. For additional information on our AT&T Interactive relationship, please see our first quarter 2010 earnings release.

### **Conference Call and Webcast Information**

Management will hold a conference call, starting at 5:00 p.m. ET on Thurs., November 4, 2010 to discuss its third quarter ended September 30, 2010 financial results, and other company updates.

### **About Marchex:**

Marchex's mission is to unlock local commerce globally by helping advertisers reach customers wherever they may be – in mobile, offline and online channels, including on our own local and category websites.

Our performance-based call advertising products, the Marchex Pay-For-Call Exchange and Marchex Call Analytics, are reinventing how businesses acquire new customers through the phone. Our award-winning Small Business Marketing products empower local businesses to efficiently monitor their online presence, communicate with their customers, and acquire new ones. Every day, our products support tens of thousands of advertisers and partners, ranging from global enterprises to local businesses.

For more information about Marchex (NASDAQ: MCHX), please visit <http://www.marchex.com/>

### **Forward-Looking Statements:**

This press release contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, included in this press release regarding our strategy, future operations, future financial position, future revenues and other financial guidance, acquisitions, projected costs, prospects, plans and objectives of management, including without limitation regarding our strategic relationship with AT&T Interactive are forward-looking statements. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. There are a number of important factors that could cause Marchex's actual results to differ materially from those indicated by such forward-looking statements, which are described in the "Risk Factors" section of our most recent periodic report and registration statement filed with the SEC. All of the information provided in this release is as of November 4, 2010 and Marchex undertakes no duty to update the information provided herein.

### **Non-GAAP Financial Information:**

To supplement Marchex's consolidated financial statements presented in accordance with GAAP and to provide clarity internally and externally, Marchex uses certain non-GAAP measures of financial performance and liquidity, including OIBA, Adjusted OIBA, Adjusted EBITDA and Adjusted non-GAAP EPS.

OIBA represents income (loss) from operations plus (1) stock-based compensation expense and (2) amortization of acquired intangible assets. This measure, among other things, is one of the primary metrics by which Marchex evaluates the performance of its business. Additionally, Marchex's management uses Adjusted OIBA, which excludes any gain/loss on sales and disposals of intangible assets as for each asset, these are viewed as non-recurring in nature. Adjusted OIBA is the basis on which Marchex's internal budgets are based and by which Marchex's management is currently evaluated. Marchex believes these measures are useful to investors because they represent Marchex's consolidated operating results, taking into account depreciation and other intangible amortization, which Marchex believes is an ongoing cost of doing business, but excluding the effects of certain other non-cash and non-recurring expenses. Adjusted EBITDA represents income (loss) before interest, income taxes, depreciation,

amortization, stock compensation expense, and gain/loss on sales and disposals of intangible assets. Marchex believes that Adjusted EBITDA is another alternative measure of liquidity to GAAP net cash provided by operating activities that provides meaningful supplemental information regarding liquidity and is used by Marchex's management to measure its ability to fund operations and its financing obligations.

Adjusted non-GAAP EPS represents Adjusted Net Income (Loss) divided by weighted average fully diluted shares outstanding for Adjusted non-GAAP EPS purposes. Adjusted Net Income (Loss) generally captures those items on the statement of operations that have been, or ultimately will be, settled in cash exclusive of certain non-recurring items and represents net income (loss) available to common stockholders plus the net of tax effects of : (1) stock based compensation expense, (2) amortization of acquired intangible assets, (3) gain/loss on sales and disposals of intangible assets, (4) other income (expense), and (5) dividends paid to participating securities. Adjusted non-GAAP EPS includes dilution from options and warrants, exercise prices per the treasury stock method provided performance conditions have been met and includes the weighted average number of all potential common shares relating to restricted stock and restricted stock units, provided performance conditions have been met. Shares outstanding for Adjusted non-GAAP EPS purposes are therefore higher than shares outstanding for GAAP EPS purposes. Financial analysts and investors may use Adjusted non-GAAP EPS to analyze Marchex's financial performance since these groups have historically used EPS related measures, along with other measures, to estimate the value of a company, to make informed investment decisions, and to evaluate a company's operating performance compared to that of other companies in its industry.

Marchex's management believes that investors should have access to, and Marchex is obligated to provide, the same set of tools that management uses in analyzing the company's results. These non-GAAP measures should be considered in addition to results prepared in accordance with GAAP, and should not be considered in isolation, as a substitute for, or superior to, GAAP results. These non-GAAP terms, as defined by Marchex, may not be comparable to similarly titled measures used by other companies. Marchex endeavors to compensate for the limitations of the non-GAAP measures presented by providing the comparable GAAP measure with equal or greater prominence, GAAP financial statements, and detailed descriptions of the reconciling items and adjustments, including quantifying such items, to derive the non-GAAP measure.

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Click [here](#) to view Marchex's Third Quarter 2010 Financial Tables (.pdf format)