



Marchex Reports Fourth Quarter and Full Year 2006 Financial Results

February 22, 2007

SEATTLE, WA - February 22, 2007 - Marchex, Inc. (NASDAQ: MCHX, MCHXP) today reported its results for the fourth quarter 2006 and full year ended December 31, 2006.

FOURTH QUARTER 2006 CONSOLIDATED FINANCIAL RESULTS:

- Revenue was \$32.6 million for the fourth quarter of 2006, a 9% increase compared to \$29.8 million for the same period of 2005.
- GAAP net income applicable to common stockholders was \$5.0 million for the fourth quarter of 2006 or \$0.13 per basic share, which included a non-cash, non-recurring discount on preferred stock redemption of \$5.8 million associated with the company's repurchase of 132,379 shares of the company's preferred stock at a price of \$195 per share. This compares to GAAP net income applicable to common stockholders of \$980,000 or \$0.03 per basic share for the same period of 2005. GAAP net income applicable to common stockholders excluding the non-cash, non-recurring discount on preferred stock redemption was a net loss of \$789,000 or \$0.02 per basic share. The fourth quarter 2006 results included non-cash stock-based compensation expense recorded under the fair value method of \$2.6 million, compared to non-cash stock-based compensation expense of \$770,000 for the same period in 2005.
- GAAP diluted EPS for the fourth quarter of 2006 was \$(0.01) per share compared to \$0.03 per share for the same period in 2005. The GAAP diluted EPS calculation in 2006 excludes the effect of the preferred stock redemption of \$5.8 million, net of dividends on the redeemed preferred shares of \$197,000. We provide a reconciliation of GAAP diluted EPS to Adjusted Non-GAAP EPS in the last 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 EPS for the fourth quarter of 2006 was \$0.13, compared to \$0.11 for the same period of 2005. 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 results.

- Adjusted operating income before amortization was \$8.3 million for the fourth quarter of 2006, which is an increase of 1% compared to \$8.2 million for the same period of 2005. A reconciliation of non-GAAP adjusted operating income before amortization to GAAP operating income and GAAP net income is attached to the financial tables included in this release.
- Adjusted EBITDA was \$10.0 million in the fourth quarter of 2006, which is an increase of 5% compared to \$9.5 million for the same period of 2005. A reconciliation of operating income before taxes, depreciation, amortization and gain/loss on sales of intangible assets to GAAP net cash provided by operating activities is attached to the financial tables included in this release.

FULL YEAR 2006 RESULTS:

- Revenue for the year ended December 31, 2006 was \$127.8 million, a 35% increase compared to \$95.0 million for 2005.
- GAAP net income applicable to common stockholders was \$2.8 million or \$0.07 per basic share for 2006, which included a non-cash, non-recurring discount on preferred stock redemption of \$5.8 million associated with the company's repurchase of 132,379 shares of the company's preferred stock at a price of \$195 per share. This compares to GAAP net income applicable to common stockholders of \$1.5 million or \$0.04 per basic share for 2005. GAAP net income applicable to common stockholders excluding the non-cash, non-recurring discount on preferred stock redemption was a net loss of \$3.0 million or \$0.08 per basic share.
- GAAP diluted EPS for 2006 was \$(0.04) per share compared to \$0.04 per share for the same period in 2005. The GAAP diluted EPS calculation in 2006 excludes the effect of the preferred stock redemption of \$5.8 million, net of dividends on the redeemed preferred shares of \$1.4 million. As discussed in the summary of the fourth quarter 2006 consolidated financial results, we provide a reconciliation of GAAP diluted EPS to Adjusted Non-GAAP EPS in the last 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 EPS for 2006 was \$0.47, compared to \$0.36 for 2005.
- Adjusted operating income before amortization was \$33.4 million for 2006, which is an increase of 32% compared to \$25.2 million for 2005. A reconciliation of non-GAAP adjusted operating income before amortization to GAAP operating income and GAAP net income is attached to the financial tables included in this release.
- Adjusted EBITDA was \$39.5 million for 2006, which is an increase of 34% compared to \$29.5 million for 2005. A reconciliation of operating income before taxes, depreciation, amortization and gain/loss on sales of intangible assets to GAAP net cash provided by operating activities is attached to the financial tables included in this release.

"The fourth quarter was highlighted by certain successes and challenges. In terms of successes, we saw growth in our proprietary user base and also saw strong growth in revenue attributable to proprietary traffic. Given that our third party monetization provider for our proprietary traffic was in the midst of preparing for the launch of a new monetization system, we feel particularly good about this revenue growth. We feel we are well positioned for 2007 in terms of revenue growth and product advancements in this part of our business," said Russell C. Horowitz, Marchex Chairman and CEO.

"In terms of challenges, we experienced slowness in our advertising services revenue based on decreased spending from certain advertisers,

including advertisers focused on wholesale pricing strategies, and softness with related third party distribution relationships."

"At this stage we feel most of these noted challenges from the back half of 2006 are predominantly behind us and that we have laid a strong foundation from which to see growth rates accelerate as we move through each of the quarters in 2007."

"There are several unique catalysts to our business, including: our success in winning new third party distribution relationships; increasing new advertiser acquisition and overall advertising spending within our network; improving our advertiser-facing tools; integrating Open List across more than 100,000 owned and operated Web sites; and continuing to optimize our owned and operated Web sites."

UPDATED STATISTICS AND RECENT HIGHLIGHTS:

Proprietary Traffic: Marchex today announced that its proprietary network of vertical and local Web sites attracted approximately 31 million unique visitors for the month of December 2006. Unique visitor statistics are based on internal traffic logs, which calculate unique IP (Internet protocol) addresses on an unduplicated basis during a given month. For the fourth quarter of 2006, revenue attributable to proprietary traffic sources was \$13.1 million.

Product Updates Regarding Vertical Web sites and Expansion of Search Platform: In late January, Marchex announced that it plans to integrate content and functionality from its Open List search and content aggregation engine across more than 100,000 Marchex Web sites by June 30, 2007. Marchex also announced that it plans to launch an expanded version of Open List (<http://www.openlist.com/>) by September 30, 2007, as a standalone destination and search guide that will provide relevant, searchable content and data on more than 15 million businesses segmented into more than 20,000 categories.

New Web Site Product Introductions: Earlier this month, Marchex announced the launch of Open View, a proprietary technology that dynamically consolidates available information and user reviews on any type of business entity, such as hotels or restaurants, into a set of distinct, relevant, and meaningful summaries. Open View, a new feature of the Open List search platform, represents Marchex's technology driven approach to generating useful and unique content on thousands of Web pages. In addition to generating content related to more than 65,000 hotels, Open View has added approximately 400,000 new, unique pieces of dynamically generated editorial content that map to each restaurant in the Open List database. As Marchex launches Open List content on tens of thousands of additional Web sites in 2007, as announced in January, the Open View technology will be part of this broader rollout.

New Search Marketing Product Introductions: Marchex today announced that it is adding conversion tracking, as well as updated reporting tools and user interface improvements to two of its pay-per-click advertising networks, Enhance Interactive and the Marchex Network, enabling advertisers to more effectively track their return on investment (ROI), access key campaign performance data and make modifications to optimize their campaigns. Marchex's new conversion tracking feature allows advertisers to easily designate and track five different types of conversions. It also enables advertisers to better track performance by keywords and make modifications to their campaigns to improve their conversion rate and ROI. Meanwhile, updated reporting tools and improvements to the user interface in the account management system are designed to help advertisers more quickly and easily access key campaign performance data and make modifications to their campaigns.

New Third Party Distribution, or Syndication, Partners: During the quarter, Marchex announced new premium publisher wins for its contextual advertising platform with the publisher of the Robb Report family of luxury publications, as well as with ITtoolbox, one of the Internet's leading communities focused on technology and its applications. Earlier this week, Marchex also announced that it has signed contextual advertising agreements with seven publishers since January 1, 2007, including such entities as Homes and Land, InvestorVillage.com, CIO Index.com, and WorldGolf.com, among others. These publishers add to Marchex's relationships with more than 100 vertically focused and brand-name online publishers, such as BusinessWeek Online, The Motley Fool, and the Ziff Davis online properties.

Stock Repurchase Programs and Quarterly Dividend: During the quarter, Marchex announced that its Board of Directors has authorized the repurchase of up to 3 million shares of the company's Class B common stock as well as the initiation of a quarterly cash dividend for holders of the company's Class A common stock and Class B common stock. The share repurchase program authorized the purchase of up to 3 million shares of the company's Class B common stock through open market and privately negotiated transactions. Marchex's quarterly cash dividend was initiated at \$0.02 per share of Class A common stock and Class B common stock. The indicated annual cash dividend, subject to capital availability, is \$0.08 per common share or approximately \$3.3 million. Separately, Marchex also announced that it has repurchased an aggregate of 132,379 shares of the company's outstanding 4.75% convertible preferred stock, \$0.01 par value per share, at a price of \$195.00 per share, representing a total cash expenditure of approximately \$26 million.

Marchex Financial Guidance:

MARCHEX FINANCIAL GUIDANCE:

The following forward-looking statements reflect Marchex's expectations as of February 22, 2007:
Guidance for fiscal year 2007 (Year ending December 31, 2007):

Revenue: For the year, we are currently anticipating revenue in the range of \$144 million to \$150 million. For detail on our quarterly revenue expectations, we currently anticipate that our annual revenue growth rate will accelerate from 8% to 10% in the first quarter of 2007, to 20% to 25% for the fourth quarter of 2007.

Adjusted operating income before amortization. For the year, we are currently anticipating adjusted operating income before amortization in the range of \$35 million to \$39 million. For adjusted EBITDA, we expect to add back approximately \$6 million in additional depreciation and amortization to this range of \$35 million to \$39 million of adjusted operating income before amortization.

For detail on our quarterly expectations, given our investment initiatives, we anticipate the first quarter of 2007 to have lower adjusted operating income before amortization than the fourth quarter of 2006, based on certain increased public company costs, increased personnel costs, increased product development costs, costs associated with office consolidation, and increased costs associated with selected Web site marketing initiatives and advertiser acquisition programs. We believe these increased expenses will disproportionately impact the first quarter of 2007 and we anticipate the rate of expense increases will moderate during the balance of the year. Given our current expectation for accelerating revenue growth rates through 2007 and our expected moderation in expense rate increases, we anticipate that our adjusted operating income before amortization will be increasing

in the second half of 2007.

CONFERENCE CALL AND WEBCAST INFORMATION:

Management will hold a conference call, starting at 5:00 p.m. EDT on Thursday, February 22, 2007 to discuss its fourth quarter 2006 and 2006 fiscal year-end results and other company updates.

ABOUT MARCHEX, INC.:

Marchex (<http://www.marchex.com/>) is a technology driven search and media company focused on vertical and local online traffic. Specifically, the company is focused on search marketing, local search, and direct navigation. Marchex's platform of integrated performance-based advertising and search marketing services enables merchants to efficiently market and sell their products and services across multiple online distribution channels, including search engines, product shopping engines, directories and selected Web sites.

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, acquisitions, projected costs, prospects, plans and objectives of management 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 February 22, 2007 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. Marchex also provides Pro Forma Revenue information for the three months and years ended December 31, 2005 and 2006 as if the Name Development and Pike Street asset acquisitions and the IndustryBrains acquisition in 2005, and the AreaConnect and Open List asset acquisitions in 2006 occurred as of January 1, 2005, and the AreaConnect and Open List asset acquisitions in 2006 occurred as of January 1, 2006, respectively.

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 of intangible assets as this is 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 before interest, income taxes, depreciation, amortization, stock compensation expense, and gain/loss on sales 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 divided by weighted average fully diluted shares outstanding for Adjusted non-GAAP EPS purposes. Adjusted Net Income 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: (1) stock based compensation expense, (2) amortization of acquired intangible assets, (3) gain/loss on sales of intangible assets, (4) other income (expense), (5) the cumulative effect of changes in accounting principles and less (6) discount on preferred stock redemption. Adjusted non-GAAP EPS includes dilution from options and warrants per the treasury stock method, includes the weighted average number of all potential common shares relating to convertible preferred stock and restricted stock and excludes the weighted average common share equivalents for redeemed preferred shares. 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 Fourth Quarter 2006 and Full Year 2006 Financial Tables \(.pdf format\)](#)