Table of Contents

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, 2010

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**

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 Website, 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 $75,114,670 as of June 30, 2010 based upon the closing sale price on the Nasdaq Global Market reported for such date. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

There were 10,238,132 shares of the registrant's Class A common stock issued and outstanding as of March 9, 2011 and 25,373,409 shares of the registrant's Class B common stock issued and outstanding as of March 9, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2011 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.

Table of Contents

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We use words such as "believes", "intends", "expects", "anticipates", "plans", "may", "will" and similar expressions to identify forward-looking statements. Discussions containing forward-looking statements may be found in the materials set forth under "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in other sections of the report. All forward-looking statements, including, but not limited to, statements regarding our future operating results, financial position, business strategy, expectations regarding our growth and the growth of the industry in which we operate, and plans and objectives of management for future operations, are inherently uncertain as they are based on our expectations and assumptions concerning future events. Any or all of our forward-looking statements in this report may turn out to be inaccurate. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. They may be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties, including the risks, uncertainties and assumptions described in Item 1A of this Annual Report on Form 10-K under the caption "Risk Factors" and elsewhere in this report. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur as contemplated, and actual results could differ materially from those anticipated or implied by the forward-looking statements. All forward-looking statements in this report are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

PART 1

ITEM 1. BUSINESS.

Overview

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

Marchex is a leading call advertising and small business marketing company. Marchex's mission is to unlock local commerce globally by helping advertisers reach customers wherever they may be – in mobile, online and offline 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 helping how businesses acquire new customers through the phone. Our Small Business Marketing products empower local businesses to efficiently monitor and manage their online presence, communicate with their customers, and acquire new customers. Our products support tens of thousands of advertisers and partners, ranging from global enterprises to small businesses.

We offer products, services and technologies that enable advertisers of all sizes to reach consumers across mobile, online and offline sources. Our products and services primarily include: call-based advertising products and related services, pay-per-click advertising products and related services, and our publishing network (also referred to as proprietary traffic sources). In addition, we provide performance marketing products, 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 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 traffic sources.

We generate revenue from two primary sources: our Local Advertising Services and our Publishing Network. During the years ended December 31, 2008, 2009 and 2010, revenue from our Local Advertising Services accounted for approximately 53%, 66%, and 73% of total revenues, respectively. We operate primarily in domestic markets. For detail on revenue by geographical areas for the three most recent fiscal years, see Note 1(q) “Segment Reporting and Geographic Information” of the notes to our consolidated financial statements.

Marchex was incorporated in Delaware on January 17, 2003.

Products and Services

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

- ***Call Advertising Services.*** We deliver a variety of call advertising products and services to national advertisers, advertising agencies and small advertiser reseller partners. These services include pay-for-call through the Marchex Pay-For-Call Exchange and call analytics solutions, which include phone number and call tracking, call mining, keyword-level tracking, click-to-call, website proxying, and other call-based products which enable our customers to utilize mobile, online and offline advertising to drive calls as well as clicks into their businesses and to measure the effectiveness of their advertising campaigns. Advertisers pay us a fee for each call they receive from call-based ads we distribute through our sources of call distribution or for each phone number tracked based on a pre-negotiated rate.
- ***Small Business Marketing Products.*** Our small business marketing products enable reseller partners of small business advertisers, such as Yellow Pages providers and vertical marketing service providers, to sell call advertising and/or search marketing products through their existing sales channels, which are then fulfilled by us across our distribution network, including mobile sources, leading search engines and our own proprietary traffic sources. By creating a solution for companies who have relationships with small businesses, it is easier for these small businesses to participate in mobile, online, offline call advertising. The lead services we offer to small business advertisers through our small business marketing products 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 small business marketing products have the capacity to support hundreds of thousands of advertiser accounts. Reseller partners and publishers generally pay us account fees and also agency fees for our products in the form of a percentage of the cost of every call or click delivered to their advertisers. Through our contract with Yellowpages.com LLC d/b/a AT&T Interactive which is a subsidiary of AT&T (collectively, “AT&T”), AT&T is our largest reseller partner and was responsible for 23% of our total revenues for 2010 of which the majority is derived from our small business marketing products.
- ***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 websites, mobile distribution and our own Publishing Network. 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 websites or a third-party website in our distribution network to an advertiser's website and completes a specified action. We also offer a private-label platform for publishers, separate and distinct from our small business marketing products which enable them to monetize their websites 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 websites on a pay-per-click basis. Advertisers can target the placements by category, site- or page-specific basis. We believe our site- and page-specific approach provides publishers with an opportunity to generate revenue from their traffic while protecting their brand. Our approach gives advertisers greater transparency into the source of the traffic and relevancy for their ads and enables them to optimize the return on investment from their advertising campaign. The contextual advertisement placements are generally ordered based on the amount our advertisers choose to pay for a placement and the relevance of the advertisement, based on historic click-through rates. Advertisers pay us when a user clicks on their advertisements in our network and we pay publishers a percentage of the revenue generated by the click-throughs on their site.

- ***Publishing Network.*** We believe our Publishing Network is a significant source of local information online and a source of calls within the Marchex Pay-For-Call Exchange. It includes more than 200,000 of our owned and operated websites focused on helping users make informed decisions about where to get local products and services. It features listings from more than 10 million small business listings in the U.S. and millions of expert and user-generated reviews on small businesses. The more than 200,000 websites 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 Publisher Network is primarily monetized with pay-for-call and pay-per-click listings that are relevant to the websites, as well as other forms of advertising, including banner advertising and sponsorships.

Our Distribution Network

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

Publishing Network (Proprietary Traffic Sources):

We believe our Publishing Network is a significant source of local information online and a valuable source of calls within the Marchex Pay-For-Call Exchange. It includes more than 200,000 websites focused on helping users make informed decisions about where to get local products and services.

The more than 200,000 owned and operated websites 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 Publishing Network is primarily monetized with pay-for-call and pay-per-click listings that are relevant to the websites, as well as other forms of advertising, including banner advertising and sponsorships.

Syndicated Distribution:

Through our call advertising services, our small business marketing products, 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 and traffic sources, including mobile sources, search engines and directories, websites and our Publishing Network.

Our Syndicated Distribution partners include:

Selected Search Engines	Selected Call Sources and Vertical and Local Distribution Partners
Google	Bankrate
Microsoft	BusinessWeek.com
Yahoo!	CBS/CNET
	Google Mobile
	Investopedia
	The Motley Fool
	Skype
	Where, Inc.
	Whitepages, Inc.
	Yahoo!

Payment arrangements with our distribution partners are often subject to minimum payment amounts per phone call or click-through. Other payment structures that we may use to a lesser degree include:

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

Industry Overview

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

As businesses have expanded their marketing through mobile and online channels to meet consumer behavior, they are increasingly turning to more measurable forms of advertising with performance-based characteristics, such as pay- for- call or pay-per-click advertising, where an advertiser is only charged when a call is completed or a consumer clicks on an ad. The shift to performance-based advertising models has been significant as it adds transparency and measurability to advertising spending. According to the Internet Advertising Bureau, between 1999 and the first half of 2010, when large advertisers began to embrace online advertising because of its performance-based characteristics, the pay-per-click advertising market grew from 7% to 61% of online advertising while the total Internet advertising market grew from $8.2 billion to $24 billion.

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 Magna Global, mobile marketing is expected to increase from $1.5 billion in 2009 to nearly $5.7 billion in 2015. 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 Call Products to Deliver an Industry Leading Solution*.** We plan to continue to expand our range of call based advertising product capabilities by offering innovative performance-based products like pay-for-call, 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 marketing products like pay-for-call advertising and presence management, that enable businesses to take control of their presence online; (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 websites 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 Publishing 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 Publishing 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 advertisements to our partners. We also combine third party licenses and hardware to create an operating environment for delivering high quality products and services, with such features as automated online account creation and management process for advertisers, real-time customer support and interactive reporting for customers and partners. We employ commercially available technologies and products distributed by various companies, including Cisco, Dell, Oracle, Intel, Microsoft, Sun Microsystems and Veritas. We also utilize public domain software such as Apache, Linux, MySQL, Java and Tomcat.

Our technology platform is compatible with the systems used by our distribution partners, enabling us to deliver advertisement listings 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 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 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 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!, WebVisible and ReachLocal. Many of our potential competitors, as well as potential entrants into our target markets, have longer operating histories, larger customer or user bases, greater brand recognition and greater financial, marketing and other resources than we have. Many current and potential competitors can devote substantially greater resources than we can to marketing, website and systems development. In addition, as the use of the 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) 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 Ingenio. We depend on maintaining and continually expanding our network of partners and advertisers to generate transactions online.

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

Due to the long-term growth trends in online 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 websites. We are also affected by the competition among destination websites that reach users or customers of search services. While thousands of smaller outlets are available to customers, several large media and search engine companies, such as Google, Yahoo!, Microsoft and AOL, dominate online user traffic. The online search industry continues to experience consolidation of major websites and search engines, which has the effect of increasing the negotiating power of

these parties in relation to smaller providers. The major destination websites and distribution providers may have leverage to demand more favorable contract terms, such as pricing, renewal and termination provisions.

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

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

Seasonality

We have and we believe we will continue to experience seasonality. Our quarterly results have fluctuated in the past and may fluctuate in the future due to seasonal fluctuations in levels of mobile and Internet usage and seasonal purchasing cycles of many advertisers. It is generally understood that during the spring and summer months, mobile and Internet usage is lower than during other times of the year, especially in comparison to the fourth quarter of the calendar year. The extent to which usage may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage during these periods may adversely affect our growth rate and results. Additionally, the current deterioration in the economic conditions has resulted in many advertisers and reseller partners reducing advertising and marketing services budgets, 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, Sun Microsystems and Veritas, and public domain software, such as Apache, Linux, MySQL, Sun Microsystems 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 patent:

- 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, claiming priority to U.S. Nonprovisional Patent Application Serial Number 60/865,671 filed November 14, 2006.
- U.S. Nonprovisional Patent Application Number 11/868,398, entitled “System and Method for Classifying Search Queries” was filed on October 5, 2007.

- U.S. Patent Number 6,822,663 entitled “Transform Rule Generator for Web-Based Markup Languages” was issued November 23, 2004.
- U.S. Nonprovisional Patent Application Number 12/512,821 entitled “Facility for Reconciliation of Business Records Using Genetic Algorithms” was filed on July 30, 2009.
- U.S. Nonprovisional Patent Application Number 12/829,372 entitled “System and Method to Direct Telephone Calls to Advertisers” and U.S. Nonprovisional Patent Application Number 12/829,373 entitled System and Method for Calling Advertised Telephone Numbers on a Computing Device” and U.S. Nonprovisional Patent Application Number 12/829,375 entitled System and Method to Analyze Calls to Advertised Telephone Numbers were all filed on July 1, 2010. U.S. Nonprovisional Patent Application Number 12/844,488 entitled “Systems and Methods for Blocking Telephone Calls” was filed on July 27, 2010.

The status of any patent involves complex legal and factual questions. The scope of allowable claims is often uncertain. As a result, we cannot be sure that: (1) any patent application filed by us will result in a patent being issued; (2) that any patents issued in the future will afford adequate protection against competitors with similar technology; and (3) that the patents issued to us, if any, will not be infringed upon or designed around by others. Furthermore, the performance-based search advertising industry has been the subject of numerous patents and patent applications, which in turn has resulted in litigation. The outcome of this ongoing litigation or any future claims in this sector may adversely affect our business or financial prospects.

We have registered trademarks in the United States for “Marchex,” “Adhere By Marchex,” “DPG,” “Form to Phone,” “Local is the New Black,” “Marchex and Design” “OpenList,” “Opportunity doesn’t Knock… it Calls!,” “goClick.com,” “Sitewise,” “Enhance Interactive,” “Marchex Adhere,” “Marchex Voice Services,” “VoiceStar” and the “Marchex Adhere” logo. We also own pending U.S. trademark applications for “We Make The Phone Ring” and “Mine”. In addition, we have registered trademarks for “Marchex” in Australia, Brazil, Canada, China, the European Union, Hong Kong, India, Japan, Republic of Korea, Russian Federation and Taiwan. We have also applied for registration of “Marchex” in a number of other foreign jurisdictions. We do not know whether we will be able to successfully defend our proprietary rights since the validity, enforceability and scope of protection of proprietary rights in Internet-related industries are uncertain and still evolving.

Regulation

The manner in which existing laws and regulations should be applied to the Internet and call-based advertising services in general, and how they relate to our businesses in particular, is unclear. A host of federal and state laws covering user privacy, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, financial market regulation, quality of products and services, computer trespass, telemarketing, spyware, adware, child protection and intellectual property ownership and infringement are potentially applicable to our business practices and the content offered by our Web link 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 websites. We currently qualify for the safe harbor under the DMCA; however, if it were determined that we did not meet the safe harbor requirements, we could be exposed to copyright infringement litigation, which could be costly and time-consuming.

- The Children's Online Privacy Protection Act (COPPA) restricts the distribution of certain materials deemed harmful to children and impose limitations on websites' ability to collect personal information from minors. COPPA allows the Federal Trade Commission (FTC) to impose fines and penalties upon website operators whose sites do not fully comply with the law's requirements. We do not currently offer any websites "directed to children," nor do we collect personal information from children.
- The Protection of Children from Sexual Predators Act requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances.
- The Controlling the Assault of Non-Solicited Pornography and Marketing (CAN-SPAM) Act of 2003 establishes requirements for those who send commercial e-mails, spells out penalties for entities that transmit noncompliant commercial e-mail and/or whose products are advertised in noncompliant commercial e-mail and gives consumers the right to opt-out of receiving commercial e-mails. The majority of the states also have adopted similar statutes governing the transmission of commercial e-mail. The FTC and the states, as applicable, are authorized to enforce the CAN-SPAM Act and the state-specific statutes, respectively. CAN-SPAM gives the Department of Justice the authority to enforce its criminal sanctions. Other federal and state agencies can enforce the law against organizations under their jurisdiction, and companies that provide Internet access may sue violators as well.
- The Electronic Communications Privacy Act prevents private entities from disclosing Internet subscriber records and the contents of electronic communications, subject to certain exceptions.
- The Computer Fraud and Abuse Act and other federal and state laws protect computer users from unauthorized computer access/hacking, and other actions by third parties which may be viewed as a violation of privacy. Michigan and Utah child protection laws, designed to protect children under the age of 18 from receiving adult content via e-mail and other electronic forms of communication (e.g., cell phones and instant messaging). Both Michigan and Utah have developed lists of minors' e-mail addresses based on parents' and guardians' submissions. Once an address has been on a list for 30 days, Web publishers are prohibited from sending the address anything containing, or even linking to, advertising for a product or service that a minor is legally prohibited from purchasing or using, even if the owner of that address previously requested to receive the information. In addition, senders need to match their own mailing lists against the state registries on at least a monthly basis, for which they must pay both Michigan and Utah a per-address fee. 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.
- Federal and state telemarketing laws including the Telephone Consumer Protection Act, the Telemarketing Sales Rule, the Telemarketing Consumer Fraud and Abuse Prevention Act and the rules and regulations promulgated thereunder.
- Laws affecting telephone call recording and data protection, such as consent and personal data statutes. Under the federal Wiretap Act, at least one party taking part in a call must be notified if the call is being recorded. Under this law, and most state laws, there is nothing illegal about one of the parties to a telephone call recording the conversation. However, several states (i.e., California, Connecticut, Florida, Illinois, Maryland, Massachusetts, Michigan, Montana, Nevada, New Hampshire, Pennsylvania and Washington) require that all parties consent when one party wants to record a telephone conversation. The telephone recording laws in other states, like federal law, require only one party to be aware of the recording.
- The Communications Assistance for Law Enforcement Act may require that the Company undertake material modifications to its platforms and processes to permit wiretapping and other access for law enforcement personnel.
- Under various Orders of the Federal Communications Commission, including its Report and Order and Further Notice of Proposed Rulemaking in Docket Number WC 04-36, dated June 27, 2006, the Company may be required to make material retroactive and prospective contributions to funds intended to support Universal Service, Telecommunications Relay Service, Local Number Portability, the North American Numbering Plan and the budget of the Federal Communications Commission.
- Laws in most states of the United States of America may require registration or licensing of one or more subsidiaries of the Company, and may impose additional taxes, fees or telecommunications surcharges on the provision of the Company’s services which the Company may not be able to pass through to customers.

In addition, there are a large number of federal and state legislative proposals related to our business. It is not possible to predict whether, or when, such legislation might be adopted, and certain proposals, if adopted, could result in a decrease in user registrations and revenue.

We comply with existing law and intend to fully comply with all future laws and regulations that may govern our industry. We have dedicated internal resources and hired outside professionals who regularly establish, review and maintain policies and procedures to reduce the risk of noncompliance. Nevertheless, these laws may impose significant additional costs on our business or subject us to additional liability, if we failed to fully comply, even if such failure was unintentional.

The acquisition of Internet domain names generally is governed by Internet regulatory bodies, predominantly the Internet Corporation for Assigned Names and Numbers (ICANN). The regulation of Internet domain names in the United States and in foreign countries is subject to change. ICANN and other regulatory bodies could establish additional requirements for previously owned Internet domain names or modify the requirements for Internet domain names.

We post a privacy policy which describes our practices concerning the use and disclosure of any user data collected or submitted via our websites. 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, 2010, we employed a total of 364 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.

Website

Our website, *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 website and click on “Investors” 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 financial condition, our results of operations, and the value of our stock.

Risks Relating to Our Company

We have largely incurred net losses since our inception, and we may incur net losses in the foreseeable future.

We had an accumulated deficit of $140.7 million as of December 31, 2010. Our net expenses may increase based on the initiatives we undertake which for instance, may include increasing our sales and marketing activities, hiring additional personnel, incurring additional costs as a result of being a public company, acquiring additional businesses and making additional equity grants to our employees.

We are dependent on certain distribution partners, for distribution of our services, and we derive a significant portion of our total revenue through these distribution partners. A loss of distribution partners or a decrease in revenue from certain distribution partners could adversely affect our business.

A relatively small number of distribution partners currently deliver a significant percentage of calls and traffic to our advertisers, although no one distribution partner accounts for in excess of 10% of our revenues.

Our existing agreements with many of our other larger distribution partners permit either company to terminate without penalty on short notice and are primarily structured on a variable-payment basis, under which we make payments based on a specified percentage of revenue or based on the number of paid phone calls or click-throughs. We intend to continue devoting resources in support of our larger distribution partners, but there are no guarantees that these relationships will remain in place over the short- or long-term. In addition, we cannot be assured that any of these distribution partners will continue to generate current levels of revenue for us or that we will be able to maintain the applicable variable payment terms at their current levels. A loss of any of these

distribution partners or a decrease in revenue due to lower calls and traffic or less favorable variable payment terms from any one of these distribution relationships could have a material adverse effect on our business, financial condition and results of operations.

Companies distributing advertising through mobile or online Internet have experienced, and will likely continue to experience, consolidation. This consolidation has reduced the number of partners that control the mobile and online advertising outlets with the most user calls and traffic. According to the comScore Media Metrix Core Search Report for December 2010, Yahoo! accounted for 16% of the online searches in the United States and Google accounted for 67%. As a result, the larger distribution partners have greater control over determining the market terms of distribution, including placement of call and click-based advertisements and cost of placement. In addition, many participants in the performance-based advertising and search marketing industries control significant portions of mobile and online traffic that they deliver to advertisers. We do not believe, for example, that Yahoo! and Google are as reliant as we are on a third-party distribution network to deliver their services. This gives these companies a significant advantage over us in delivering their services, and with a lesser degree of risk.

We rely on certain advertiser reseller partners and agencies, including AT&T (through our contract with AT&T's subsidiary Yellowpages.com LLC d/b/a AT&T Interactive), Yellowbook USA Inc., The Cobalt Group, Super Media, Inc., and Yellow Pages Group Canada for the purchase of various advertising and marketing services, as well as to provide us with a large number of advertisers. A loss of certain advertiser reseller partners and agencies or a decrease in revenue from these reseller partners could adversely affect our business. Such advertisers are subject to varying terms and conditions which may result in claims or credit risks to us.

We benefit from the established relationships and national sales teams that certain of our reseller partners, who are leading reseller partners of advertisers and advertising agencies, have in place throughout the U.S. and international markets. These advertiser reseller partners and agencies refer or bring advertisers to us for the purchase of various advertising products and services. We derive a sizeable portion of our total revenue through these advertiser reseller partners and agencies. A loss of certain advertiser reseller partners and agencies or a decrease in revenue from these clients could adversely affect our business. AT&T is our largest advertiser reseller partner and was responsible for 23% of our total revenues for the year ended December 31, 2010. We recently entered into an amendment to our agreement with AT&T which extends its term through June 30, 2015.

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 52% and 48% of our revenue from our five largest customers for the years ended December 31, 2009 and 2010, 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 52% of our total revenues for the year ended December 31, 2009 and 48% for the year ended December 31, 2010, respectively. AT&T is our largest customer

and was responsible for 23% of our total revenues for year ended December 31, 2010 and 40% of accounts receivable at December 31, 2010. We recently entered into an amendment to our agreement with AT&T which extends its term through June 30, 2015. Certain of these customers are not subject to long term contracts with us and are generally able to reduce advertising spending at any time and for any reason. A significant reduction in advertising spending by our largest customers, or the loss of one or more of these customers, if not replaced by new customers or an increase in business from existing customers, would adversely affect revenues. This could have a material adverse effect on our results of operations and financial condition.

Our large customers have substantial negotiating leverage, which may require that we agree to terms and conditions that may have an adverse effect on our business.

Our large customers have substantial purchasing power and leverage in negotiating contractual arrangements with us. These customers may seek for us to develop additional features, may require penalties for failure to deliver such features, may seek discounted product or service pricing and may seek more favorable contractual terms. As we sell more products and services to this class of customer, we may be required to agree to such terms and conditions. Such large customers also have substantial leverage in negotiating resolution of any disagreements or disputes than may arise. Any of the foregoing factors could result in a material adverse effect on our business, financial condition and results of operations.

If some of our customers experience financial distress, their weakened financial position could negatively affect our own financial position and results.

We have a diverse customer base and, at any given time, one or more customers may experience financial distress, file for bankruptcy protection or go out of business. If a customer with whom we do a substantial amount of business experiences financial difficulty, it could delay or jeopardize the collection of accounts receivable, result in significant reductions in services provided by us and may have a material adverse effect on our results of operations and liquidity.

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

Many of our advertisement generation and distribution processes are automated. In some cases, advertisers or reseller partners use our online tools and account management systems to create and submit advertiser listings and in other cases we create and submit advertising listing on behalf of our advertisers or reseller partners. These advertiser listings are submitted in a bulk data feed or through the distribution partners' user interface. Although we monitor our distribution partners on an ongoing basis primarily for traffic quality, these partners control the distribution of the advertiser listings provided in the data feed or user interface submissions.

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

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 websites. 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.

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 that we are able to secure for 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. We are subject to the rules and guidelines established by the Federal Communications Commission as well as our telecommunication carriers. 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 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 protect our intellectual property and to operate without infringing on the intellectual property rights of others in the process. There can be no guarantee that any of our intellectual property will be adequately safeguarded, or that it 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 websites that would be costly to defend and could limit our ability to use certain critical technologies.

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. Russell C. Horowitz, Ethan A. Caldwell, Peter Christothoulou and John Keister, our founders, each own shares of fully vested Class A common stock. 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, 2010, Russell C. Horowitz, Ethan A. Caldwell, Peter Christothoulou and John Keister together controlled 92% 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 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 recent 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 Market could be adversely affected.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud, which could harm our brand and operating results.

Effective internal controls are necessary for us to provide reliable and accurate financial reports and effectively prevent fraud. We have devoted significant resources and time to comply with the internal control over financial reporting requirements of the Sarbanes-Oxley Act of 2002. In addition, Section 404 under the Sarbanes-Oxley Act of 2002 requires that we assess and our auditors attest to the effectiveness of our controls over financial reporting. Our current and future compliance with the annual internal control report requirement will depend on the effectiveness of our financial reporting and data systems and controls across our operating subsidiaries. We expect these systems and controls to become increasingly complex to the extent that we integrate acquisitions and our business grows. To effectively manage this growth, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. We cannot be certain that these measures will ensure that we design, implement and maintain adequate controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation or operation, could harm our operating results or cause us to fail to meet our financial reporting obligations. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock and our access to capital.

Impairment of goodwill and other intangible assets would result in a decrease in earnings.

Current accounting rules require that goodwill and other intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. These rules also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events and circumstances considered in determining whether the carrying value of amortizable intangible assets and goodwill may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; or a significant decline in our stock price and/or market capitalization for a sustained period of time. To the extent such evaluation indicates that the useful lives of intangible assets are different than originally estimated, the amortization period is reduced or extended and, accordingly, the quarterly amortization expense is increased or decreased. To the extent such evaluation indicates that the useful lives of intangible assets are different than originally estimated, the amortization period is reduced or extended and, accordingly, amortization expense is increased or decreased.

We recorded a substantial non-cash impairment charge for goodwill and intangible assets during the fourth quarter of 2008 as a result of the impact of the recent adverse economic environment including the deterioration

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

We may not be able to realize the intended and anticipated benefits from our acquisitions of Internet domain names, 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 that we currently expect from our acquisitions of Internet domain names. These intended and anticipated benefits include 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 anticipate, 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 websites, 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 Publishing Network depends in large part upon consumer access to our websites. Consumers access our websites primarily through the following methods: directly accessing our websites by typing descriptive keywords or keyword strings into the uniform resource locator (URL) address box of an Internet browser; accessing our websites by clicking on bookmarked websites; and accessing our websites 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 websites, and search engines may from time to time change and establish rules regarding the indexing and optimization of websites. We also market certain websites 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 websites are not within our control. We may experience a decline in traffic to our websites 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 websites to continue to periodically change their algorithms, policies and technologies. These changes may result in an interruption in users ability to access our websites or impair our ability to maintain and grow the number of users who visit our websites. 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.

The Name Development, Pike Street and AreaConnect asset 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 websites 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, websites or other offline outlets;
- provision of local and vertical websites 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 websites or other offline distribution outlets;
- delivery of online advertising to end users or customers of advertisers through mobile and online destination websites 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!, WebVisible and ReachLocal. Many of these actual or perceived competitors also currently or may in the future have business relationships with us, particularly in distribution. However, such companies may

terminate their relationships with us. Furthermore, our competitors may be able to secure agreements with us on more favorable terms, which could reduce the usage of our services, increase the amount payable to our distribution partners, reduce total revenue and thereby have a material adverse effect on our business, operating results and financial condition.

We expect competition to intensify in the future because current and new competitors can enter our market with little difficulty. The barriers to entering our market are relatively low. In fact, many current Internet and media companies presently have the technical capabilities and advertiser bases to enter the search marketing services industry. Further, if the consolidation trend continues among the larger media and search engine companies with greater brand recognition, the share of the market remaining for smaller search marketing services providers could decrease, even though the number of smaller providers could continue to increase. These factors could adversely affect our competitive position.

Some of our competitors, as well as potential entrants into our market, may be better positioned to succeed in this market. They may have:

- longer operating histories;
- more management experience;
- an employee base with more extensive experience;
- better geographic coverage;
- larger customer bases;
- greater brand recognition; and
- significantly greater financial, marketing and other resources.

Currently, and in the future, as the use of the Internet and other mobile and online services increases, there will likely be larger, more well-established and well-financed entities that acquire companies and/or invest in or form joint ventures in categories or countries of interest to us, all of which could adversely impact our business. Any of these trends could increase competition and reduce the demand for any of our services.

We face competition from traditional media companies, and we may not be included in the advertising budgets of large advertisers, which could harm our operating results.

In addition to Internet companies, we face competition from companies that offer traditional media advertising opportunities. Most large advertisers have set advertising budgets, a very small portion of which is allocated to Internet advertising. We expect that large advertisers will continue to focus most of their advertising efforts on traditional media. If we fail to convince these companies to spend a portion of their advertising budgets with us, or if our existing advertisers reduce the amount they spend on our programs, our operating results would be harmed.

If we are not able to respond to the rapid technological change characteristic of our industry, our products and services may cease to be competitive.

The market for our products and services is characterized by rapid change in business models and technological infrastructure, and we will need to constantly adapt to changing markets and technologies to provide new and competitive products and services. If we are unable to ensure that our users, advertisers, reseller partners, and distribution partners have a high-quality experience with our products and services, then they may become dissatisfied and move to competitors' products and services. Accordingly, our future success will depend, in part, upon our ability to develop and offer competitive products and services for both our target market and for applications in new markets. We may not, however, be able to successfully do so, and our competitors may develop innovations that render our products and services obsolete or uncompetitive.

Our technical systems are vulnerable to interruption and damage that may be costly and time-consuming to resolve and may harm our business and reputation.

A disaster could interrupt our services for an indeterminate length of time and severely damage our business, prospects, financial condition and results of operations. Our systems and operations are vulnerable to damage or interruption from:

- fire;
- floods;
- network failure;
- hardware failure;
- software failure;
- power loss;
- telecommunications failures;
- break-ins;
- terrorism, war or sabotage;
- computer viruses;
- denial of service attacks;
- penetration of our network by unauthorized computer users and “hackers” and other similar events;
- natural disaster; and
- other unanticipated problems.

We may not have developed or implemented adequate protections or safeguards to overcome any of these events. We also may not have anticipated or addressed many of the potential events that could threaten or undermine our technology network. Any of these occurrences could cause material interruptions or delays in our business, result in the loss of data or render us unable to provide services to our customers. In addition, if a person is able to circumvent our security measures, he or she could destroy or misappropriate valuable information, including sensitive customer information, or disrupt our operations. We have deployed firewall hardware intended to thwart hacker attacks. Although we maintain property insurance and business interruption insurance, our insurance may not be adequate to compensate us for all losses that may occur as a result of a catastrophic system failure or other loss, and our insurers may not be able or may decline to do so for a variety of reasons.

If we fail to address these issues in a timely manner, we may lose the confidence of our advertisers, reseller partners, and distribution partners, our revenue may decline and our business could suffer. In addition, as we expand our service offerings and enter into new business areas, we may be required to significantly modify and expand our software and technology platform. If we fail to accomplish these tasks in a timely manner, our business and reputation will likely suffer.

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

We rely upon third party collocation 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 collocation 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 collocation 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 acquired U.S. Patent Number 6,822,663 titled “Transform Rule Generator for Web-Based Markup Languages” through our Voice Services transaction. We also own U.S. Patent Number 7,668,950 titled “Automatically Updating Performance-Based Online Advertising System and Method,” non-provisional U.S. Patent Application Number 11/868,398 titled “System and Method for Classifying Search Queries,” non-provisional U.S. Patent Application Number 11/985,188 titled “Method and System for Tracking Telephone Calls,” non-provisional U.S. Patent Application Number 12/512,821 titled “Facility for Reconciliation of Business Records Using Genetic Algorithms,” non-provisional U.S. Patent Application Number 12/829,372 titled “System and Method to Direct Telephone Calls to Advertisers,” non-provisional U.S. Patent Application Number 12/829,373 titled “System and Method for Calling Advertised Telephone Numbers on a Computing Device,” non-provisional U.S. Patent Application Number 12/829,375 titled “System and Method to Analyze Calls to Advertised Telephone Numbers”, and non-provisional U.S Patent Application Number 12/844,488 titled “Systems and Methods for Blocking Telephone Calls.” 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 similarly sued by others. 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. As is typical in our industry, the second and third quarters of the calendar year generally experience relatively lower usage than the first and fourth quarters. It is generally understood that during the spring and summer months of the year, mobile and Internet usage is lower than during other times of the year, especially in comparison to the fourth quarter of the calendar year. The extent to which usage may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage during these periods may adversely affect our growth rate and in turn the market price of our securities. Additionally, the recent deterioration in the economic conditions has resulted in many advertisers and reseller partners reducing advertising and marketing services budgets, which we expect will impact our quarterly results of operations in addition to the 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;
- 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 websites. We currently qualify for the safe harbor under

the DMCA; however, if it were determined that we did not meet the safe harbor requirements, we could be exposed to copyright infringement litigation, which could be costly and time-consuming.

- The Children's Online Privacy Protection Act (COPPA) restricts the distribution of certain materials deemed harmful to children and imposes limitations on websites' ability to collect personal information from minors. COPPA allows the Federal Trade Commission (FTC) to impose fines and penalties upon website operators whose sites do not fully comply with the law's requirements. We do not currently offer any websites "directed to children," nor do we collect personal data from children.
- The Protection of Children from Sexual Predators Act requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances.
- The Controlling the Assault of Non-Solicited Pornography and Marketing (CAN SPAM) Act of 2003 establishes requirements for those who send commercial e-mails, spells out penalties for entities that transmit noncompliant commercial e-mail and/or whose products are advertised in noncompliant commercial e-mail and gives consumers the right to opt-out of receiving commercial e-mails. The majority of the states also have adopted similar statutes governing the transmission of commercial e-mail. The FTC and the states, as applicable, are authorized to enforce the CAN-SPAM Act and the state-specific statutes, respectively. CAN-SPAM gives the Department of Justice the authority to enforce its criminal sanctions. Other federal and state agencies can enforce the law against organizations under their jurisdiction, and companies that provide Internet access may sue violators as well.
- The Electronic Communications Privacy Act prevents private entities from disclosing Internet subscriber records and the contents of electronic communications, subject to certain exceptions.
- The Computer Fraud and Abuse Act and other federal and state laws protect computer users from unauthorized computer access/hacking, and other actions by third parties which may be viewed as a violation of privacy. Michigan and Utah child protection laws, designed to protect children under the age of 18 from receiving adult content via e-mail and other electronic forms of communication (e.g., cell phones and IM). Both Michigan and Utah have developed lists of minors' e-mail addresses based on parents' and guardians' submissions. Once an address has been on a list for 30 days, Web publishers are prohibited from sending the address anything containing, or even linking to, advertising for a product or service that a minor is legally prohibited from purchasing or using, even if the owner of that address previously requested to receive the information. In addition, senders need to match their own mailing lists against the state registries on at least a monthly basis, for which they must pay both Michigan and Utah a per-address fee. 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.

Future regulation of search engines may adversely affect the commercial utility of our search marketing services.

The FTC, has reviewed the way in which search engines disclose paid placements or paid inclusion practices to Internet users. In 2002, the FTC issued guidance recommending that all search engine companies ensure that all paid search results are clearly distinguished from non-paid results, that the use of paid inclusion is clearly and conspicuously explained and disclosed and that other disclosures are made to avoid misleading users about the possible effects of paid placement or paid inclusion listings on search results. Such disclosures if ultimately mandated by the FTC or voluntarily made by us may reduce the desirability of our paid placement and paid inclusion services. We believe that some users will conclude that paid search results are not subject to the same relevancy requirements as non-paid search results, and will view paid search results less favorably. If such FTC disclosure reduces the desirability of our paid placement and paid inclusion services, and “click-throughs” of our paid search results decrease, our business could be adversely affected.

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 three-year ban on state and local governments' imposition of new taxes on Internet access or electronic commerce transactions. On October 31, 2007, this ban was extended for another seven years. 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 in November 2014. 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 Market (formerly, the Nasdaq National Market) ranged from $3.00 to $26.14 per share through December 31, 2010. 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;
- developments concerning our various strategic collaborations;
- 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 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 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, 2010, 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 91% of the combined voting power of all outstanding shares of our capital stock. These founders together control 92% of the combined voting power of all outstanding shares of our capital stock. The holders of our Class A common stock and Class B common stock have identical rights except that the holders of our Class B common stock are entitled to one vote per share, while holders of our Class A common stock are entitled to twenty-five votes per share on all matters to be voted on by stockholders. This concentration of control could be disadvantageous to our other stockholders with interests different from those of these founders. This difference in the voting rights of our Class A common stock and Class B common stock could adversely affect the price of our Class B common stock to the extent that investors or any potential future purchaser of our shares of Class B common stock give greater value to the superior voting rights of our Class A common stock.

Further, as long as these founders have a controlling interest, they will continue to be able to elect all or a majority of our board of directors and generally be able to determine the outcome of all corporate actions requiring stockholder approval. As a result, these founders will be in a position to continue to control all fundamental matters affecting our company, including any merger involving, sale of substantially all of the assets of, or change in control of, our company. The ability of these founders to control our company may result in our Class B common stock trading at a price lower than the price at which such stock would trade if these founders did not have a controlling interest in us. This control may deter or prevent a third party from acquiring us which could adversely affect the market price of our Class B common stock.

Anti-takeover provisions may limit the ability of another party to acquire us, which could cause our stock price to decline.

Our certificate of incorporation, as amended, our by-laws and Delaware law contain provisions that could discourage, delay or prevent a third party from acquiring us, even if doing so may be beneficial to our stockholders. In addition, these provisions could limit the price investors would be willing to pay in the future for shares of our Class B common stock. The following are examples of such provisions in our certificate of incorporation, as amended, or our by-laws:

- the authorized number of our directors can be changed only by a resolution of our board of directors;
- advance notice is required for proposals that can be acted upon at stockholder meetings;
- there are limitations on who may call stockholder meetings; and
- our board of directors is authorized, without prior stockholder approval, to create and issue "blank check" preferred stock.

We are also subject to Section 203 of the Delaware General Corporation Law, which provides, subject to enumerated exceptions, that if a person acquires 15% or more of our voting stock, the person is an "interested stockholder" and may not engage in "business combinations" with us for a period of three years from the time the person acquired 15% or more of our voting stock. The application of Section 203 of the Delaware General Corporation Law could have the effect of delaying or preventing a change of control of our company.

We may not be able to continue to pay dividends on our common stock in the future which could impair the value of such stock.

Under Delaware law, dividends to stockholders may be made only from the surplus of a company, or, in certain situations, from the net profits for the current fiscal year or the fiscal year before which the dividend is declared. We have initiated and paid a quarterly dividend on our common stock since November 2006. However, there is no assurance that we will be able to pay dividends in the future. Our ability to pay dividends in the future will depend on our financial results, liquidity and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Our headquarters are located in Seattle, Washington and consist of approximately 61,000 square feet of leased office space expiring in March 2018. We also lease additional office space in Las Vegas, Nevada and New York, New York with lease terms expiring between March 2011 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. [REMOVED AND RESERVED].

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 Market (formerly, the Nasdaq National 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 Market:

	High	Low
Year ended December 31, 2009		
First Quarter	$6.01	$3.00
Second Quarter	$4.95	$3.00
Third Quarter	$5.11	$3.42
Fourth Quarter	$5.50	$4.19
Year ended December 31, 2010		
First Quarter	$5.78	$4.87
Second Quarter	$5.44	$3.85
Third Quarter	$5.55	$3.80
Fourth Quarter	$9.72	$5.15

Holders

As of March 9, 2011, there were 35,611,541 shares of common stock outstanding that were held by 71 stockholders of record. Of these shares:

- 10,238,132 shares were issued as Class A common stock, and as of this date were held by 4 stockholders of record; and
- 25,373,409 shares were issued as Class B common stock, and as of this date were held by 67 stockholders of record.

Dividends

In November 2006, we initiated a quarterly cash dividend at $0.02 per share of Class A common stock and Class B common stock. Although we expect that the annual cash dividend, subject to capital availability, will be $0.08 per common share or approximately $2.8 million for the foreseeable future, there can be no assurance that we will continue to pay dividends at such rate or at all.

Issuer Purchases of Equity Securities

During the fourth quarter of 2010, 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, 2010	70,993[2]	$ 4.10	53,243	1,217,737
November 1 - November 30, 2010	191,882	$ 6.82	191,882	1,025,855
December 1 - December 31, 2010	31,391[2]	$ 1.66	7,391	1,018,464
Total Class B Common Shares	294,266	$ 5.61	252,516	1,018,464

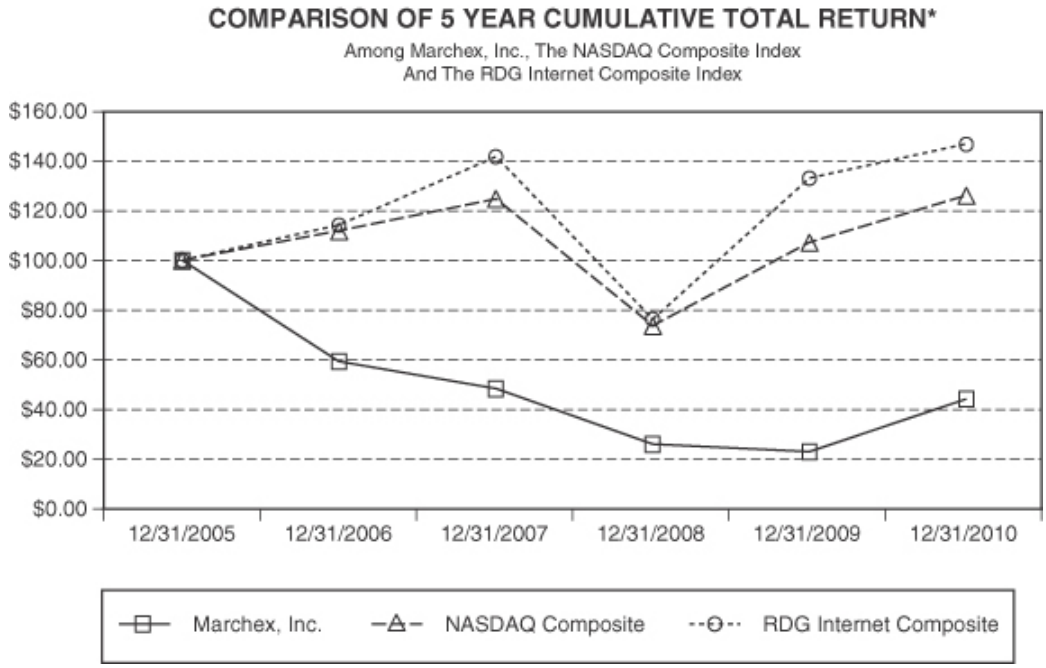
(1) We have established a share repurchase program which currently authorizes the Company to repurchase up to 11 million shares in the aggregate (less shares previously repurchased under the share repurchase program) of the Company's Class B common stock. No shares will be knowingly purchased from company 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 the repurchase of 17,750 and 24,000 shares in October and December 2010, respectively, of restricted equity subject to vesting which were issued to certain employees and which were not already vested upon termination of employment.

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, 2005 through December 31, 2010 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, 2005 through 2010. The graph assumes that $100 was invested on December 31, 2005 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 12/31/05 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
Marchex, Inc.	$100.00	$ 59.49	$ 48.60	$26.32	$ 23.34	$ 44.48
NASDAQ Composite Index	$100.00	$111.74	$124.67	$73.77	$107.12	$125.93
RDG Internet Composite Index	$100.00	$114.13	$141.57	$76.48	$132.93	$146.50

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, 2006 and 2007 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, 2008, 2009 and 2010, and the consolidated balance sheet data at December 31, 2009 and 2010, 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:

	Year ended December 31,				
	2006	2007	2008	2009	2010
Revenue	$ 127,759,475	$ 139,390,659	$ 146,374,922	$ 93,261,201	$ 97,565,607
Income (loss) from operations	$ 551,860	$ (3,037,360)	$ (175,286,051)	$ (3,570,231)	$ (3,788,881)
Net loss	$ (443,637)	$ (1,505,268)	$ (127,863,628)	$ (2,062,004)	$ (3,043,297)
Net income (loss) applicable to common stockholders	$ 2,753,704	$ (1,627,170)	$ (128,131,883)	$ (2,249,459)	$ (3,241,811)
Basic net income (loss) per share applicable to Class A and Class B common stockholders	$ 0.07	$ (0.04)	$ (3.52)	$ (0.07)	$ (0.10)
Diluted loss per share applicable to Class A and Class B common stockholders	$ (0.04)	$ (0.04)	$ (3.52)	$ (0.07)	$ (0.10)
Shares used to calculate basic net income (loss) per share applicable to common stockholders					
Class A	11,662,012	11,562,367	10,963,724	10,884,257	10,660,607
Class B	26,596,168	27,375,331	25,468,281	22,829,994	21,992,914
Shares used to calculate diluted net income (loss) per share applicable to common stockholders					
Class A	11,662,012	11,562,367	10,963,724	10,884,257	10,660,607
Class B	39,496,419	38,937,698	36,432,005	33,714,251	32,653,521

Consolidated Balance Sheet Data:

	December 31,				
	2006	2007	2008	2009	2010
Cash and cash equivalents	$ 46,105,827	$ 36,456,307	$ 27,418,396	$ 33,638,002	$ 37,328,052
Working capital	$ 56,787,483	$ 41,242,743	$ 34,987,716	$ 41,272,583	$ 47,305,491
Total assets	$ 333,387,836	$ 320,194,345	$ 170,269,787	$ 159,373,159	$ 159,689,743
Other non-current liabilities	$ 91,907	$ 105,370	$ 23,297	$ 1,005,444	$ 2,076,332
Total liabilities	$ 16,174,934	$ 18,305,870	$ 20,962,035	$ 17,948,228	$ 19,997,820
Total stockholders’ equity	$ 317,212,902	$ 301,888,475	$ 149,307,752	$ 141,424,931	$ 139,691,923
Cash dividends declared per common share	$ 0.02	$ 0.06	$ 0.08	$ 0.08	$ 0.08

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with the audited consolidated financial statements and the notes to those statements which appear elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements. Please see page 1 on this Annual Report on Form 10-K "Forward-Looking Statements" and Item 1A of this Annual Report on Form 10-K under the caption "Risk Factors" for a discussion of the risks, uncertainties and assumptions associated with these statements.

Overview

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

- ***Call Advertising Services.*** We deliver a variety of call advertising products and services to national advertisers, advertising agencies and small advertiser reseller partners. These services include pay-for-call through the Marchex Pay-For-Call Exchange and call analytics solutions, which include phone number and call tracking, call mining, keyword-level tracking, click-to-call, website proxying, and other call-based products which enable our customers to utilize mobile, online and offline advertising to drive calls as well as clicks into their businesses and to measure the effectiveness of their advertising campaigns. Advertisers pay us a fee for each call they receive from call-based ads we distribute through our sources of call distribution or for each phone number tracked based on a pre-negotiated rate.
- ***Small Business Marketing Products.*** Our small business marketing products enable reseller partners of small business advertisers, such as Yellow Pages providers and vertical marketing service providers, to sell call advertising and/or search marketing products through their existing sales channels, which are then fulfilled by us across our distribution network, including mobile sources, leading search engines and our own proprietary traffic sources. By creating a solution for companies who have relationships with small businesses, it is easier for these small businesses to participate in mobile, online, offline call advertising. The lead services we offer to small business advertisers through our small business marketing products 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 small business marketing products have the capacity to support hundreds of thousands of advertiser accounts. Reseller partners and publishers generally pay us account fees and also agency fees for our products in the form of a percentage of the cost of every click or call delivered to their advertisers. Through our contract with Yellowpages.com LLC d/b/a AT&T Interactive which is a subsidiary of AT&T (collectively, "AT&T"), AT&T is our largest reseller partner and was responsible for 23% of our total revenues for 2010 of which the majority is derived from our small business marketing products.
- ***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 websites, mobile distribution and our own Publishing Network. 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 websites or a third-party website in our distribution network to an advertiser's website and completes a specified action. We also offer a private-label platform for publishers, separate and distinct from our small business marketing products which enable them to monetize their websites 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 websites on a pay-per-click basis. Advertisers can target the placements by category, site- or page-specific basis. We believe our site- and page-specific approach provides publishers with an opportunity to generate revenue from their traffic while protecting their brand. Our approach gives advertisers greater transparency into the source of the traffic and relevancy for their ads and enables them to optimize the return on investment from their advertising campaign. The contextual advertisement placements are generally ordered based on the amount our advertisers choose to pay for a placement and the relevance of the advertisement, based on historic click-through rates. Advertisers pay us when a user clicks on their advertisements in our network and we pay publishers a percentage of the revenue generated by the click-throughs on their site.

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

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

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

Consolidated Statements of Operations

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, 2008, 2009 and 2010.

Revenue

We currently generate revenue through our call advertising services, pay-per-click advertising small business marketing products which include our call and click services, publishing network, and historically our feed management and related services.

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

We recognize revenue upon the completion of our performance obligation, provided that: (1) evidence of an arrangement exists; (2) the arrangement fee is fixed and determinable; and (3) collection is reasonably assured.

In certain cases, we record revenue based on available and reported preliminary information from third parties. Collection on the related receivables may vary from reported information based upon third party refinement of the estimated and reported amounts owing that occurs subsequent to period ends.

Performance-Based Advertising Services

In providing call advertising services and pay-per-click advertising, we generate revenue upon our delivery of qualified and reported phone calls or click-throughs to our advertisers or advertising service providers' listings. These advertisers and advertising service providers pay us a designated transaction fee for each phone call or click-through, which occurs when a user makes a phone call or clicks on any of their advertisement listings after it has been placed by us or by our distribution partners. Each phone call or click-through on an advertisement listing represents a completed transaction. The advertisement listings are displayed within our distribution network, which includes mobile and online search engines and applications, directories, destination sites, shopping engines, third-party Internet domains or websites, our portfolio of owned websites, 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 websites or a third-party website in our distribution network to an advertiser website and completes the specified action.

We generate revenue from reseller partners and publishers utilizing our small business marketing products to sell call advertising and/or search marketing products. We are paid account fees and also agency fees for our products in the form of a percentage of the cost of every call or click delivered to advertisers. The reseller partners or publishers engage the advertisers and are the primary obligor, and we, in certain instances, are only financially liable to the publishers in our capacity as a collection agency for the amount collected from the advertisers. We recognize revenue for these fees under the net revenue recognition method. In limited

arrangements resellers pay us a fee for fulfilling an advertiser's campaign in our distribution network and we act as the primary obligor. We recognize revenue for these fees under the gross revenue recognition method

In providing pay-per-click contextual targeting services, advertisers purchase keywords or keyword strings, based on an amount they choose for a targeted placement on vertically-focused websites or specific pages of a website 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.

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

Search Marketing Services

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

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

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

Other inclusion fees are generally associated with monthly or annual subscription-based services where an advertiser pays a fixed amount to be included in our index of listings or our distribution partners' index of listings. Revenues from these subscription arrangements are recognized ratably over the service period.

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. It is generally understood that during the spring and summer months, mobile and Internet usage is lower than during other times of the year, especially in comparison to the fourth quarter of the calendar year. The extent to which usage may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage during these periods may adversely affect our growth rate and results. Additionally, the current business environment has generally resulted in advertisers and reseller partners reducing advertising and marketing services budgets, 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 websites;
- domain name registration renewal fees;
- network fees;
- fees paid to outside service providers;
- delivering customer service;
- depreciation of our websites, network equipment and internally developed software;
- colocation service charges of our website 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 websites and indexes. The primary economic structure of the distribution partner agreements is a variable payment based on a specified percentage of revenue.

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

We expense user acquisition costs based on whether the agreement provides for fixed or variable payments. Agreements with fixed payments with minimum guaranteed amounts of usage are expensed as the greater of the pro-rata amount over the term of arrangement or the actual usage delivered to date based on the contractual revenue share. Agreements with variable payments based on a percentage of revenue, number of paid phone calls, click-throughs or other metrics are expensed as incurred based on the volume of the underlying activity or revenue multiplied by the agreed-upon price or rate.

Sales and Marketing

Sales and marketing expenses consist primarily of:

- payroll and related expenses for personnel engaged in marketing and sales functions;
- advertising and promotional expenditures including online and outside marketing activities;
- cost of systems used to sell to and serve advertisers; and
- stock-based compensation of related personnel.

Product Development

Product development costs consist primarily of expenses incurred in the research and development, creation and enhancement of our websites and services.

Our research and development expenses include:

- payroll and related expenses for personnel;
- costs of computer hardware and software;
- costs incurred in developing features and functionality of the services we offer; and
- stock-based compensation of related personnel.

For the periods presented, substantially all of our product development expenses are research and development.

Product development costs are expensed as incurred or capitalized into property and equipment in accordance with FASB ASC 350 . This statement requires that costs incurred in the preliminary project and post-implementation stages of an internal use software project be expensed as incurred and that certain costs incurred in the application development stage of a project be capitalized.

General and Administrative

General and administrative expenses consist primarily of:

- payroll and related expenses for executive and administrative personnel;
- professional services, including accounting, legal and insurance;
- bad debt provisions;
- facilities costs;
- other general corporate expenses; and
- stock-based compensation of related personnel.

Stock-Based Compensation

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

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

Stock-based compensation expense has been included in the same lines as compensation paid to the same employees in the consolidated statement of operations in accordance with SEC Accounting Bulletin No. 107, *Share-based Payment*.

Amortization of Intangibles from Acquisitions

Amortization of intangible assets excluding goodwill relates to intangible assets identified in connection with our acquisitions.

The intangible assets have been identified as:

- non-competition agreements;
- trademarks and Internet domain names;
- distributor relationships;
- advertising relationships;
- patents; and
- acquired technology.

These assets are amortized over useful lives ranging from 12 to 84 months.

Provision for Income Taxes

We utilize the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be

recovered or settled. The effect on deferred tax assets and liabilities of a change in tax law is recognized in results of operations in the period that includes the enactment date.

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

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

As of December 31, 2010, we have net deferred tax assets of $51.6 million, relating to the impairment of goodwill, amortization of intangibles assets, certain other temporary differences and research and development credits. Although realization is not assured, we believe it is more likely than not that our net deferred tax assets, excluding certain state and foreign net operating loss carryforwards, will be realized. As of December 31, 2010, 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 and foreign jurisdictions will be realizable and accordingly, have recorded a 100% valuation allowance of $3.8 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, 2010, 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, 2009 and 2010, we had federal net operating loss, or 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.

Convertible Preferred Stock

During 2008, the Company's board of directors declared the following quarterly dividends on the Company's 4.75% convertible exchangeable preferred stock:

Approval Date	Per share dividend	Date of record	Total amount (in thousands)	Payment date
January 2008	$ 2.97	February 4, 2008	$ 16	February 15, 2008
April 2008	$ 2.97	May 2, 2008	$ 15	May 15, 2008
July 2008	$ 2.97	August 4, 2008	$ 12	August 15, 2008

In 2008, we repurchased the remaining outstanding 6,024 shares of preferred stock for a total cash expenditure of approximately $1.4 million.

Comparison of the year ended December 31, 2009 (2009) to the year ended December 31, 2010 (2010) and comparison of the year ended December 31, 2008 (2008) to the year ended December 31, 2009 (2009).

Revenue.

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

	Years ended December 31,		
	2008	2009	2010
Partner and Other Revenue Sources	$ 77,284,284	$ 61,698,440	$ 71,536,906
Proprietary Traffic Sources	69,090,638	31,562,761	26,028,701
Total Revenue	$ 146,374,922	$ 93,261,201	$ 97,565,607

2009 to 2010

Our partner network revenues are primarily generated using third-party distribution networks to deliver the advertisers' listings. The distribution network includes mobile and online search engine applications, directories, destination sites, shopping engines, third-party Internet domains or websites, other targeted Web-based content and offline sources. We generate revenue upon delivery of qualified and reported phone calls or click-throughs to our advertisers or to advertising services providers' listings. We pay a revenue share to the distribution partners to access their mobile, online, offline or other user traffic. Other revenues include our call provisioning and call tracking services, presence management services, campaign management services, natural search optimization services and outsourced search marketing platforms. Our publishing network revenues are generated from our portfolio of owned websites which are monetized with pay-for-call or pay-per-click listings that are relevant to the websites, as well as other forms of advertising, including banner advertising and sponsorships. When an online user navigates to one of our websites and calls or clicks on a particular listing or completes the specified action, we receive a fee.

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

Under our primary arrangement with AT&T, we generate revenues from our small business marketing products to sell call advertising and/or search marketing products through their existing sales channels, which are

then fulfilled by us across our distribution network. We are paid account fees and also agency fees for our products in the form of a percentage of the cost of every call or click delivered to their advertisers. In the second quarter of 2010, we signed an extension of our arrangement with AT&T through June 30, 2015 that includes certain exclusivity provisions for new advertiser accounts and the contemplated migration of several thousand existing advertiser accounts. As part of the arrangement, we provided pricing reductions including significant pricing incentives in 2010. We estimate these incentives in comparison to the prior arrangement pricing likely generated an estimated $8 million in savings for AT&T during 2010 and accordingly, we experienced a decrease in revenues primarily in the second and third quarter of 2010 related to AT&T but to a lesser extent in the third quarter relative to the second quarter. We expect revenues from our arrangement with AT&T to scale back upwards further in the near term. AT&T and Yahoo! in 2009 accounted for 22% and 11%, respectively, of our total revenues compared to 23% and less than 10%, respectively, in 2010.

Our publishing network revenue decreased primarily due to $3.1 million in lower revenues for cost-per-actions from resellers such as Dex One Corporation, WhitePages, Inc. and Intelius, Inc., particularly related to our local search and directory websites. The remainder of such decrease was largely due to lower revenues from our arrangement with Yahoo! whereby we receive payment upon click-throughs on pay-per-click listings presented on our websites. This decrease was principally due to fewer click-throughs on pay-per-click listings from Yahoo! through the third quarter of 2010 and the expiration of our paid listings arrangement with Yahoo! related to our websites on September 30, 2010, although we expect to continue various other contractual arrangements with Yahoo!. We entered into a paid listings arrangement with another advertiser service provider in the fourth quarter of 2010 which primarily offset Yahoo!’s revenue decline in such quarter. In the near term, we expect lower publishing network revenues as a result of lower budgets for cost-per-actions from resellers particularly related to our local search and directory websites.

2008 to 2009

Revenue decreased 36%, from $146.4 million in 2008 to $93.3 million in 2009. The decrease in partner network and other revenues was primarily attributable to a more than $15.5 million decrease in pay-per-click revenues due in part to approximately 3,000 fewer advertisers spending on our partner network and lower advertiser spend budgets. Additionally there was a $4.9 million decrease attributable to less traffic volume from domain name owners who are distribution partners utilizing our third-party content platform, including a net decline of less than 5 distribution partners comparing the year ended December 31, 2009 to the same period ended in 2008. These decreases were partially offset by our adding more than $4.8 million in revenues generated from advertisers utilizing our small business marketing products and call advertising services. Publishing network revenue decreased primarily due to $6.4 million lower revenues from our arrangement with Yahoo! whereby we receive payment upon click-throughs on pay-per-click listings presented on our websites. This decrease was principally due to fewer click-throughs on pay-per-click listings from Yahoo! The remainder of such decrease was largely due to lower revenues for cost-per-actions from resellers such as AT&T, Dex One Corporation, SuperMedia Inc., Yellowbook USA Inc., WhitePages, Inc., Vantage Media, LLC and Intelius, Inc., particularly related to our local search and directory websites. The year ended December 31, 2009 was also impacted by $1.6 million of revenue we did not recognize for services, in part because of limited collectability assurance from certain advertiser resellers, including due to the bankruptcy filings of SuperMedia and Dex One.

AT&T and Yahoo! in 2008 accounted for 13% and 11%, respectively, of our total revenues compared to 20% and 11%, respectively, in 2009. As noted above, revenues from SuperMedia and Intelius are primarily related to our local search and directory websites and revenues decreased from $15.9 million and $19.3 million, respectively, in 2008, to $2.8 million and $10.5 million, respectively, in 2009. 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 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 websites 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 traffic sources which may not be at the same rate levels as other advertising providers and could adversely affect our revenues and results of operations. If we do not add new distribution partners, renew our current distribution partner agreements or replace traffic lost from terminated distribution agreements with other sources or if our distribution partners' businesses do not grow or are adversely affected, our revenue and results of operations may be materially and adversely affected. If revenue grows and the volume of transactions and traffic increases, we will need to expand our network infrastructure. Inefficiencies in our network infrastructure to scale and adapt to higher traffic volumes could materially and adversely affect our revenue and results of operations.

We anticipate that these variables will fluctuate in the future, affecting our growth rate and our financial results. In particular, it is difficult to project the number of phone calls and click-throughs which will be delivered to our advertisers and how much advertisers will spend with us, and it is even more difficult to anticipate the average revenue per phone call or click-through. It is also difficult to anticipate the impact of worldwide economic conditions on advertising budgets due to the evolving market conditions. In addition, we believe we will experience seasonality. Our quarterly results have fluctuated in the past and may fluctuate in the future due to seasonal fluctuations in levels of mobile and Internet usage and seasonal purchasing cycles of many advertisers. It is generally understood that during the spring and summer months, mobile and Internet usage is lower than during other times of the year, especially in comparison to the fourth quarter of the calendar year. The extent to which usage may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage during these periods may adversely affect our growth rate and results.

Expenses

Expenses were as follows:

	Twelve months ended December 31,					
	2008	% revenue	2009	% revenue	2010	% revenue
Service costs	$ 66,022,359	45%	$47,632,864	51%	$57,557,213	59%
Sales and marketing	31,951,963	22%	17,890,196	19%	13,530,198	14%
Product development	17,485,518	12%	14,477,906	16%	16,804,032	17%
General and administrative	19,652,781	13%	16,049,461	17%	17,506,440	18%
Amortization of intangible assets from acquisitions	13,957,728	10%	5,492,850	6%	2,728,493	3%
Impairment of goodwill	169,299,000	116%	—	0%	—	0%
Impairment of intangible assets	7,424,706	5%	—	0%	—	0%

We follow FASB ASC 718 and record stock-based compensation expense under the fair value method. In 2010, we recorded $10.8 million of stock-based compensation expense as compared to $9.6 million in 2009 and $11.4 million in 2008. 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:

	Twelve months ended December 31,		
	2008	2009	2010
Service costs	$ 493,023	$ 473,575	$ 804,946
Sales and marketing	1,681,815	1,400,470	799,088
Product development	1,664,467	591,892	1,014,458
General and administrative	7,511,272	7,131,395	8,213,356
Total stock-based compensation	$ 11,350,577	$ 9,597,332	$ 10,831,848

See Note 7 (c)—"Stock Option Plan" of the consolidated financial statements as well as our Critical Accounting Policies for additional information about stock-based compensation.

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

Service costs decreased 28% from $66.0 million in 2008 to $47.6 million in 2009. The decrease was primarily attributable to a decrease in payments to distribution partners, Internet domain amortization, royalties, personnel costs, payment processing fees and stock-based compensation of $19.0 million offset by an increase in other costs, fees paid to outside service providers, depreciation and facility costs of $750,000.

Service costs represented 59% of revenue in 2010 compared to 51% in 2009 and 45% in 2008. The 2010 increase as a percentage of revenue in service costs as compared to 2009 was primarily a result of an increase in the proportion of revenue attributable to our pay-for-call or cost-per-action services for which there are related distribution partner payments, the effect of the pricing incentives to AT&T, and to a lesser extent an increase in communication and network costs. The 2009 increase as a percentage of revenue in service costs as compared to 2008 was primarily a result of an increase in the proportion of revenue attributable to our partner and other revenue sources for which there are related distribution partner payments as compared to our proprietary traffic revenue. Payments to pay-for -call, pay-per-click, cost-per-action and feed management partners account for higher user acquisition costs as a percentage of revenue relative to our overall service cost percentage.

We expect that user acquisition costs and revenue shares to distribution partners are likely to increase prospectively given the competitive landscape for distribution partners. To the extent that payments to pay-for-call, pay-per-click or cost-per-action distribution partners make up a larger percentage of future operations, or the addition or renewal of existing distribution partner agreements are on terms less favorable to us, we expect that service costs will increase as a percentage of revenue. To the extent of revenue declines in these areas, we expect revenue shares to distribution partners to decrease in absolute dollars. Our publishing network sources have a lower service cost as a percentage of revenue relative to our overall service cost percentage. Our publishing network sources have no corresponding distribution partner payments. To the extent our publishing network sources make up a larger percentage of our future operations, we expect that service costs will decrease as a percentage of revenue. In part, as a result of significant pricing incentives we have provided for under our arrangement with AT&T in 2010, our service costs as a percentage of revenue were higher in 2010. We expect with an increase in the proportion of partner and other revenue sources and additional investment in our network, service costs will increase as a percentage of revenue in the near term. We also expect that in the longer term service costs will increase in absolute dollars as a result of costs associated with the expansion of our operations and network infrastructure as we scale and adapt to increases in the volume of transactions and traffic and invest in our platforms.

Sales and Marketing. Sales and marketing expenses decreased 24% from $17.9 million in 2009 to $13.5 million in 2010. As a percentage of revenue, sales and marketing expenses were 19% and 14% for 2009 and 2010, respectively. The net decrease in dollars and percentage of revenue was related primarily to a decrease in online and outside marketing activities and stock-based compensation. 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 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. We also expect fluctuations in marketing expenditures as we redirect our online marketing efforts towards more of our updated websites and direct monetization of our proprietary traffic sources but expect expenditures related to these efforts to increase in absolute dollars in the long term.

Sales and marketing expenses decreased 44% from $32.0 million in 2008 to $17.9 million in 2009. As a percentage of revenue, sales and marketing expenses were 22% and 19% for 2008 and 2009, respectively. The net decrease in dollars was related primarily to a decrease in online and outside marketing activities.

Product Development. Product development expenses increased 16% from $14.5 million in 2009 to $16.8 million in 2010. The increase in dollars was primarily due to an increase in personnel costs and stock-based compensation of $2.9 million. As a percentage of revenue, product development expenses were 16% and 17% in 2009 and 2010, respectively. The 2010 increase as a percentage of revenue in product development expense as compared to 2009 was primarily a result of an increase in the proportion of personnel costs and stock-based compensation relative to revenue. 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 decreased 17%, from $17.5 million in 2008 to $14.5 million in 2009. As a percentage of revenue, product development expenses were 12% and 16% for 2008 and 2009, respectively. The decrease in dollars was primarily due to a decrease in fees paid to outside service providers, stock-based compensation and personnel costs of $3.0 million. The 2009 increase as a percentage of revenue in product development expense as compared to 2008 was primarily a result of an increase in the proportion of personnel costs relative to revenue.

General and Administrative. General and administrative expenses increased 9%, from $16.0 million in 2009 to $17.5 million in 2010. The increase in dollars was primarily due to an increase in stock-based compensation, personnel costs, fees paid to outside service providers, and bad debt expense of $1.9 million offset by a decrease in facility and other operating costs of $487,000. As a percentage of revenue, general and administrative expenses were 17% and 18% in 2009 and 2010, respectively. We do not expect significant changes to our general and administrative expenses in the near term. We expect that our general and administrative expenses will increase in the longer term to the extent that we expand our operations and incur additional costs in connection with being a public company, including expenses related to professional fees and insurance, and as a result of stock-based compensation expense. We also expect fluctuations in our general and administrative expenses to the extent the recognition timing of stock-based compensation is impacted by market conditions relating to our stock price

General and administrative expenses decreased 19%, from $19.7 million in 2008 to $16.0 million in 2009. The decrease was primarily due to a decrease in personnel costs, bad debt, stock-based compensation, fees paid to outside service providers, depreciation and other costs of $3.7 million. As a percentage of revenue, general and administrative expenses were 13% and 17% for 2008 and 2009, respectively.

Amortization of Intangible Assets from Acquisitions. Intangible amortization expense decreased 50%, from $5.5 million in 2009 to $2.7 million in 2010. The decrease was associated with certain intangible assets from acquisitions being fully amortized. During 2010, the amortization of intangibles related to service costs.

Intangible amortization expense decreased 61%, from $14.0 million in 2008 to $5.5 million in 2009. The decrease was associated with certain intangible assets from acquisitions being fully amortized in 2008 and 2009. During 2009, the components of amortization were service costs of $5.5 million and general and administrative of $44,000. During 2008, the components of amortization of intangibles were service costs of $12.5 million, sales and marketing of $1.2 million and general and administrative of $267,000.

Our purchase accounting resulted in all assets and liabilities from our acquisitions being recorded at their estimated fair values on their respective acquisition dates. All goodwill, identifiable intangible assets and liabilities resulting from our acquisitions have been recorded in our financial statements. The identified intangibles amounted to $83.7 million and are being amortized over a range of useful lives of 12 to 84 months.

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. Events and circumstances considered in determining whether the carrying value of amortizable intangible assets and goodwill may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; or a significant decline in the Company's stock price and/or market capitalization for a sustained period of time.

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

Impairment of goodwill. In the fourth quarter of 2008, we performed our annual impairment testing in accordance with FASB ASC 350 . As a result of this testing, we recorded a $169.3 million non-cash impairment charge on goodwill. The impairment charge resulted in part from adverse equity and credit market conditions that caused a sustained decrease in current market multiples and our stock price, a decrease in valuations of U.S. public companies and corresponding increased costs of capital created by the weakness in the U.S. financial markets and decreases in cash flow forecasts for the markets where we operate. No indicators of impairment of goodwill have been identified in 2009 and 2010.

Impairment of intangible assets. In the fourth quarter of 2008 in conjunction with our annual impairment testing of goodwill and in light of the then current macroeconomic environment and significant decrease in market capitalization we also performed a review on certain of our intangible assets under FASB ASC 360 . As a result we recorded a $7.4 million non-cash impairment charge on certain technology and domain assets. The impairment charge resulted from the weakness in the U.S. financial markets, decreases in our cash flow forecasts in the markets where we operate and changes in the planned utilization of such assets. No impairment of our intangible assets have been identified in 2009 and 2010.

Gain on sales and disposals of intangible assets, net. The gain on sales and disposals of intangible assets, net was $6.8 million in 2010 and was attributable to the sales and disposals of Internet domain names and other intangible assets. The gain on sales and disposals of intangible assets, net was $4.1 million and $4.7 million in 2008 and 2009, respectively.

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

Other income, net decreased from $1.5 million of income in 2008 to ($17,000) of expense in 2009. The decrease in other income, net during 2009 was primarily due to $891,000 of non-recurring income being recorded in 2008 related to service fees on inactive customer accounts and cash received related to a litigation settlement, in addition to lower interest income as a result of the lower average cash balances, resulting from the Class B common stock repurchases, and lower interest rates.

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

Income tax benefit in 2008 was $45.9 million compared to $1.5 million in 2009. In 2008, the effective tax rate benefit of 26% differed from the expected tax rate of 35% due primarily to the non-deductible goodwill impairment and other items such as non-deductible stock-based compensation related to restricted stock and incentive stock options recorded under the fair-value method, state income taxes, and other amounts.

During 2008, 2009 and 2010, we recognized excess tax benefits (deficits) on stock option exercises and restricted stock vesting of approximately $266,000, ($1.8 million), and ($537,000), respectively, which were recorded to additional paid in capital.

Convertible Preferred Stock Dividends, Conversion Payment, and (Discount) Premium on Preferred Stock Redemption, net. The convertible preferred stock dividends and discount on preferred stock redemption, net, decreased from $40,000 in 2008 to $0 in 2009 and 2010. The decrease was due to the redemption of all outstanding preferred stock in October 2008. In 2008, there was $40,000 which was primarily related to convertible preferred stock dividends.

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

The net loss decreased from $127.9 million in 2008 to $2.1 million in 2009, primarily due to the non-recurring impairment of goodwill and intangible assets in 2008 offset by a decrease in 2009 revenue compared to 2008 and resulting lower operating contribution.

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, 2010. 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							
	Mar 31, 2009	June 30, 2009	Sept 30, 2009	Dec 31, 2009	Mar 31, 2010	June 30, 2010	Sept 30, 2010	Dec 31, 2010
Consolidated Statement of Operations:								
Revenue	$26,570,949	$21,081,073	$22,171,794	$23,437,385	$24,001,981	$21,393,353	$24,194,841	$27,975,432
Expenses:								
Service costs (1)	11,861,694	11,024,516	12,048,245	12,698,410	12,649,501	13,655,544	14,604,200	16,647,968
Sales and marketing (1)	7,588,915	3,682,352	3,213,946	3,404,982	3,910,708	3,511,375	3,183,374	2,924,741
Product development (1)	4,154,200	3,446,317	3,369,290	3,508,099	3,962,284	4,326,330	4,193,428	4,321,990
General and administrative (1)	4,070,540	3,987,195	3,997,361	3,994,365	3,836,261	4,289,559	4,683,639	4,696,981
Amortization of intangible assets from acquisitions (2)	2,134,966	1,334,585	1,211,328	811,971	704,466	710,907	704,106	609,014
Total operating expenses	29,810,315	23,474,965	23,840,170	24,417,827	25,063,220	26,493,715	27,368,747	29,200,694
Gain on sales and disposals of intangible assets, net	930,239	854,616	1,048,113	1,878,877	1,327,304	690,244	2,632,634	2,121,706
Income (loss) from operations	(2,309,127)	(1,539,276)	(620,263)	898,435	266,065	(4,410,118)	(541,272)	896,444
Other income (expense):								
Interest income	16,154	12,516	13,016	18,757	18,605	19,060	17,891	20,606
Interest and line of credit expense	(13,912)	(31,581)	(26,709)	(26,337)	(25,823)	(26,815)	(27,256)	(27,315)
Other	12,915	126	50	8,442	1,558	44,700	111,968	1,416
Total other income (expense)	15,157	(18,939)	(13,643)	862	(5,660)	36,945	102,603	(5,293)
Income (loss) before provision for income taxes	(2,293,970)	(1,558,215)	(633,906)	899,297	260,405	(4,373,173)	(438,669)	891,151
Income tax expense (benefit) (3)	(620,933)	(390,058)	(1,376,830)	863,031	328,179	(1,245,557)	54,202	246,187
Net income (loss)	(1,673,037)	(1,168,157)	742,924	36,266	(67,774)	(3,127,616)	(492,871)	644,964
Dividends paid to participating securities	(40,613)	(49,847)	(46,577)	(50,418)	(43,574)	(48,115)	(54,540)	(52,285)
Net income (loss) applicable to common stockholders	$(1,713,650)	$(1,218,004)	$ 696,347	$ (14,152)	$ (111,348)	$(3,175,731)	$ (547,411)	$ 592,679

(1) Excludes amortization of intangible assets from acquisitions

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

Service costs	$ 2,101,633	$ 1,323,474	$ 1,211,328	$ 811,971	$ 704,466	$ 710,907	$ 704,106	$ 609,014
General and administrative	33,333	11,111	—	—	—	—	—	—
Total	$ 2,134,966	$ 1,334,585	$ 1,211,328	$ 811,971	$ 704,466	$ 710,907	$ 704,106	$ 609,014

(3) Third quarter 2009 includes a $1.3 million income tax benefit to reflect updated filings for research and experimentation credits for the period 2005 through 2009.

Liquidity and Capital Resources

As of December 31, 2009 and 2010, we had cash and cash equivalents of $33.6 million and $37.3 million, respectively. As of December 31, 2010, we had contractual obligations of $18.6 million of which $14.9 million is for rent under our facility operating leases.

Cash provided by operating activities primarily consists of a net loss adjusted for certain non-cash items such as amortization and depreciation, income and excess tax benefit from stock options, stock-based compensation, facility relocation amounts, gain on sale of intangible assets net, impairment of goodwill, impairment of intangible assets, deferred income taxes and changes in working capital.

Cash provided by operating activities for the year ended December 31, 2010 of approximately $9.4 million consisted primarily of net loss of $3.0 million adjusted for non-cash items of $21.9 million, including depreciation, amortization of intangible assets, allowance for doubtful accounts and advertiser credits, stock-based compensation, and deferred income taxes, gain on sales and disposals of intangible and fixed assets, net of $6.8 million and approximately $2.6 million used for working capital and other activities which is net of cash received of $779,000 related to a lease incentive. Cash provided by operating activities for the year ended December 31, 2009 of approximately $17.1 million consisted primarily of a net loss of $2.1 million adjusted for non-cash items of $26.4 million, including depreciation, amortization of intangible assets, allowance for doubtful accounts and advertiser credits, stock-based compensation, deferred income taxes and excess income tax benefit related to stock options, gain on sales and disposals of intangible and fixed assets, net of $4.7 million and approximately $2.5 million used in working capital and other activities. Cash provided by operating activities for the year ended December 31, 2008 of approximately $26.5 million consisted primarily of a net loss of $127.9 million adjusted for non-cash items of $164.6 million, which includes $169.3 million for the impairment of goodwill and $7.4 million for the impairment of intangible assets, partially offset by a deferred tax benefit of $49.6 million. Other non-cash items also included depreciation, amortization of intangible assets, allowance for doubtful accounts and advertiser credits, stock-based compensation and excess income tax benefit related to stock options, gain on sales and disposals of intangible and fixed assets, net of $4.1 million and approximately $6.1 million used in working capital and other activities such as decreases in restricted cash for credit card authorization agencies.

With respect to a significant portion of our call-based and pay-per-click advertising services, the amount payable to the distribution partners will be calculated at the end of a calendar month, with a payment period following the delivery of the phone calls or click-throughs. We generally receive payment from advertisers in close proximity or in some cases prior to the timing of the corresponding payments to the distribution partners who provide placement for the listings. These services constituted the majority of revenue in 2008, 2009 and 2010. 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 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 one to three 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 traffic sources or our small business marketing products, such as AT&T, SuperMedia Inc., Yellowbook USA Inc., The Cobalt Group, WhitePages, Inc., and Vantage Media LLC., whereby we receive payment between 30 and 60 days following the delivery of services. For the year and as of December 31, 2010 amounts from these partners totaled 39% of revenue and $10.7 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, 2010 from AT&T totaled $8.3 million.

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

Cash provided by investing activities for the year ended December 31, 2010 of approximately $3.2 million was primarily attributable to proceeds from the sales of intangible assets of approximately $6.8 million which

were primarily offset by net purchases for property and equipment of $3.4 million. Cash provided by investing activities for the year ended December 31, 2009 of approximately $2.5 million was primarily attributable to proceeds from the sales of intangible assets of approximately $4.9 million primarily offset by net purchases for property and equipment of $2.4 million. Cash provided by investing activities for the year ended December 31, 2008 of approximately $782,000 was primarily attributable to proceeds from the sales of intangible assets of approximately $4.4 million offset by net purchases for property and equipment of $3.3 million, and purchases for Internet domain names or websites of approximately $208,000 and payments for the Marchex Voice Services acquisition of approximately $128,000.

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, 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 options. Cash used in financing activities for the year ended December 31, 2009 of approximately $13.5 million was primarily attributable to the repurchase of 2.8 million shares of Class B common stock for treasury stock totaling approximately $10.7 million, and common stock dividend payments of $2.9 million, partially offset by net proceeds of approximately $131,000 from the sale of stock through employee stock options and employee stock plan purchases and $69,000 of excess tax benefits related to stock options. Cash used in financing activities for the year ended December 31, 2008 of approximately $36.3 million was primarily attributable to the repurchase of 3.8 million shares of Class B common stock for treasury stock and 6,000 shares of preferred stock totaling approximately $32.6 million and $1.4 million, respectively, and common stock and preferred dividend payments of $3.2 million, partially offset by net proceeds of approximately $1.0 million from the sale of stock through employee stock options, employee stock purchases and the issuance of restricted stock to employees and $61,000 of excess tax benefit related to stock options.

The following table summarizes our contractual obligations as of December 31, 2010, and the effect these obligations are expected to have on our liquidity and cash flows in future periods.

	Total	Less than 1 year	1-3 years	4-5 years	thereafter
Contractual Obligations:					
Operating leases	$ 14,921,817	$ 1,557,470	$ 3,863,814	$ 4,324,201	$ 5,176,332
Other contractual obligations	3,668,420	$ 2,254,266	1,414,154	—	—
Total contractual obligations [1], [2],[3],[4]	$ 18,590,237	$ 3,811,736	$ 5,277,968	$ 4,324,201	$ 5,176,332

(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 $546,000 are not included due to their uncertainty.

(3) In May 2010, we 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. Future minimum payments related to these new facilities are approximately as follows: $209,000 in 2011, $243,000 in 2012, $249,000 in 2013, $273,000 in 2014, $295,000 in 2005, and $682,000 in aggregate thereafter.

(4) In December 2010, we entered into an amendment to our lease agreement from June 2009 for additional office space in Seattle, Washington, which commenced in December 2010 and expires in March 2018. Future minimum payments related to this additional office space are approximately as follows: $144,000 in 2011, $225,000 in 2012, $275,000 in 2013, $283,000 in 2014, $292,000 in 2015, and $688,000 in aggregate thereafter.

During 2009 and 2010, we paid approximately $12,000 and $116,000, respectively, for the purchase of additional Internet domains or websites. In the near term, we do not expect significant cash outlays for Internet domains although we do expect some outlays as we expect to continue acquiring Internet domains or websites in the normal course of business as we grow our proprietary network of websites.

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 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. As of December 31, 2010, we had $30 million of availability under the credit agreement. During the first quarter of 2011, we signed an amendment to the credit agreement which extends the maturity period through to April 1, 2014 and increases the applicable margin rate by 25 basis points.

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. In February 2008, our Board of Directors authorized an increase in the share repurchase program to provide for the repurchase up to 5 million shares in the aggregate (less shares previously repurchased under the share repurchase program) of our Class B common stock. In August 2008, the Company's board of directors authorized an increase in the share repurchase program for the Company to repurchase up to 6 million shares in the aggregate (less shares previously repurchased under the share repurchase program) of the Company's Class B common stock. In December 2008, the Company's board of directors authorized an increase in the share repurchase program for the Company to repurchase up to 7 million shares in the aggregate (less shares previously repurchased under the share repurchase program) of the Company's Class B common stock. In February 2009, the Company's board of directors authorized an increase in the share repurchase program for the Company to repurchase up to 9 million shares in the aggregate (less shares previously repurchased under the share repurchase program) of the Company's Class B common stock. In December 2009, the Company's board of directors authorized an increase 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. Under the revised share repurchase program, repurchases may take place in the open market and in privately negotiated transactions and at times and in such amounts as we deem appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, capital availability, and other market conditions. This share repurchase program does not have an expiration date and may be expanded, limited or terminated at any time without prior notice. During the year ended December 31, 2009 and 2010, approximately 2.8 million and 1.2 million shares of Class B common stock, respectively, were repurchased under the share purchase program. In 2011, we have repurchased approximately 13,000 shares of Class B common stock to date.

The quarterly cash dividend was initiated at $0.02 per share of Class A common stock and Class B common stock. For 2009, quarterly dividends were paid on February 17, May 15, August 17 and November 16 to Class A and Class B common stockholders of record as of the close of business of February 6, May 4, August 7 and November 6, respectively. Total dividends paid in 2009 were approximately $2.9 million. For 2010, quarterly dividends were paid on February 15, May 17, August 16 and November 15 to Class A and Class B common stockholders of record as of the close of business of February 4, May 5, August 6 and November 5, respectively. Total dividends paid in 2010 were approximately $2.8 million. Although we expect that the annual cash dividend, subject to capital availability, will be $0.08 per common share or approximately $2.8 million for the foreseeable future, there can be no assurance that we will continue to pay dividends at such a rate or at all. Under Delaware law, dividends to stockholders may be made only from the surplus of a company, or, in certain situations, from the net profits for the current fiscal year before the dividend is declared by the board of directors.

Based on our operating plans we believe that our existing credit availability, resources and cash flow provided by ongoing operations, will be sufficient to fund our operations for at least twelve months. Additional

equity and debt financing may be needed to support our acquisition strategy, our long-term obligations and our Company's needs. If additional financing is necessary, it may not be available; and if it is available, it may not be possible for us to obtain financing on satisfactory terms. Failure to generate sufficient revenue or raise additional capital could have a material adverse effect on our ability to continue as a going concern and to achieve our intended business objectives.

Critical Accounting Policies

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

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

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

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

Revenue

We currently generate revenue through our operating businesses by delivering call and click-based advertising products that enable advertisers of all sizes to reach local consumers across online, mobile and offline sources. The primary revenue driver has been performance-based advertising, which includes pay-for-call advertising, pay-per-click advertising, cost-per-action services and historically feed management and related services. For pay-for-call, pay-per-click advertising, and feed management and related services, 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 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 websites or a third-party website in our distribution network to an advertiser website 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, search engines and applications, directories, product shopping engines, third-party vertical and branded websites, offline sources, and our portfolio of owned websites, on which we include our advertisers' listings. We generally pay distribution partners based on a specified percentage of revenue or a fixed amount per phone call or click-through on these listings. We act as the primary obligor in these transactions, and we are responsible for providing customer and administrative services to the advertiser. In

accordance with FASB ASC 605, the revenue derived from advertisers who receive paid introductions through us as supplied by distribution partners is reported gross based upon the amounts received from the advertiser. We also recognize revenue for certain agency contracts with advertisers under the net revenue recognition method. Under these specific agreements, we purchase listings on behalf of advertisers from search engines and directories. We are paid account fees and also agency fees based on the total amount of the purchase made on behalf of these advertisers. Under these agreements, our advertisers are primarily responsible for choosing the publisher and determining pricing, and the Company, in certain instances, is only financially liable to the publisher for the amount collected from our advertisers. This creates a sequential liability for media purchases made on behalf of advertisers. In certain instances, the web publishers engage the advertisers directly and we are paid an agency fee based on the total amount of the purchase made by the advertiser. In limited arrangements resellers pay us a fee for fulfilling an advertiser's campaign in our distribution network and we act as the primary obligor. We recognize revenue for these fees under the gross revenue recognition method.

We apply FASB ASC 605 to account for revenue arrangements with multiple deliverables. FASB ASC 605 addresses certain aspects of accounting by a vendor for arrangements under which the vendor will perform multiple revenue-generating activities. When an arrangement involves multiple elements, the entire fee from the arrangement is allocated to each respective element based on its relative fair value and recognized when revenue recognition criteria for each element are met. Fair value for each element is established based on the sales price charged when the same element is sold separately.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed in business combinations accounted for under the purchase method.

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

Goodwill is tested annually for impairment and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. Events and circumstances considered in determining whether the carrying value of goodwill may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; and a significant decline in the Company's stock price and/or market capitalization for a sustained period of time. If our stock price were to trade below book value per share for a extended period of time and/or we continue to experience adverse effects of a continued downward trend in the overall economic environment, changes in the business itself, including changes in projected earnings and cash flows, we may have to recognize an impairment of all or some portion of our goodwill. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. If the fair value is lower than the carrying value, a material impairment charge may be reported in our financial results. We exercise judgment in the assessment of the related useful lives of intangible assets, the fair values and the recoverability. In certain instances, the fair value is determined in part based on cash flow forecasts and discount rate estimates. We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. To the extent such evaluation indicates that the useful lives of intangible assets are different than originally estimated, the amortization period is reduced or extended and, accordingly, amortization expense is increased or decreased. Recoverability of assets held and used is measured by a comparison of the carrying amount of an asset group to estimated undiscounted future cash flows expected to be generated by the asset group. If such asset group is considered to be impaired, the impairment is to be recognized by the amount by which the carrying amount of the assets exceeds fair value. Assets to be disposed of are separately presented on the balance sheet and reported at the lower of their carrying amount or fair value

less costs to sell, and are no longer depreciated. We cannot accurately predict the amount and timing of any impairment of goodwill or other intangible assets. Should the value of goodwill or other intangible assets become impaired, we would record the appropriate charge, which could have an adverse effect on our financial condition and results of operations.

In the fourth quarter of 2008 we performed our annual goodwill impairment testing in accordance with FASB ASC 350 and in light of the then adverse macroeconomic environment and significant decrease in market capitalization. We also performed a review on certain of our intangible assets under FASB ASC 360. As a result of this testing, we recorded $176.7 million pre-tax impairment charge on goodwill and intangible assets in the fourth quarter of 2008. The impairment charge resulted in part from adverse equity and credit market conditions that caused a sustained decrease in market multiples and the company's stock price, a decrease in valuations of U.S. public companies and corresponding increased costs of capital created by the weakness in the U.S. financial markets and decreases in cash flow forecasts for us and the markets in which we operate. Certain technology and domain assets were written-down due to the decreased cash flow forecasts and planned utilization of the assets. The impairment charges will not result in any current or future cash expenditures.

No impairment of our goodwill and other intangible assets have been identified in 2010. 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 2010, we issued equity awards of stock options and restricted stock units in three separate tranches that have vesting based on a combination of certain service and market conditions. For equity awards with vesting based on a combination of certain service and market conditions, we factor an estimated probability of achieving certain service and market conditions and recognize compensation cost over the requisite service period of the award. We used a binomial lattice model to determine the fair value for each tranche and a Monte Carlo simulation to determine the derived service period for each tranche.

Although the fair value of stock-based awards is determined in accordance with FASB ASC 718, the assumptions used in calculating fair value of stock-based awards, the use of the Black-Scholes option pricing model, and the use of the binomial lattice model and a Monte Carlo simulation are highly subjective, and other reasonable assumptions could provide differing results. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. See Note 7 (c)—"Stock Option Plan" in the consolidated financial statements for additional information.

Allowance for Doubtful Accounts and Advertiser Credits

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

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

Provision for Income Taxes

We utilize the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax law is recognized in results of operations in the period that includes the enactment date.

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

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

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

As of December 31, 2010, we have net deferred tax assets of $51.6 million, relating to the impairment of goodwill, amortization of intangibles assets, certain other temporary differences and research and development credits. Although realization is not assured, we believe it is more likely than not that our net deferred tax assets, excluding certain state and foreign net operating loss carryforwards, will be realized. As of December 31, 2010, 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 and foreign jurisdictions will be realizable and accordingly, have recorded a 100% valuation allowance of $3.8 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, 2010, 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, 2009 and 2010, we had federal net operating loss, or 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.

Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update (ASU) 2009–No. 13 *Multiple-Deliverable Revenue Arrangements*, which amends FASB ASC 605 *Revenue Recognition.* This provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. ASU 2009–No. 13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is required to and plans to adopt the provisions of this update beginning in the first quarter of 2011. The Company adopted the provisions of this update beginning in the first quarter of 2011 and the Company does not expect this new guidance to have a material impact on the Company's financial statements.

Effective January 1, 2009, the Company adopted the requirements of FASB ASC 260, which addresses whether 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 and would need to be included in the earnings allocation in computing earnings per share under the two-class method. Under the two-class method required, a portion of net income is allocated to these participating securities and therefore is excluded from the calculation of EPS allocated to common stock. This adoption required all prior-period earnings per share data to be adjusted retrospectively.

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, 2009 and 2010, 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, 2009 and 2010, 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, 2010. 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, 2009 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, 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, 2010, 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 14, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Seattle, Washington
March 14, 2011

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, 2010, 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, 2010, 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, 2009 and 2010, 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, 2010, and our report dated March 14, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Seattle, Washington
March 14, 2011

MARCHEX, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31, 2009	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 33,638,002	$ 37,328,052
Accounts receivable, net	14,783,429	20,213,886
Prepaid expenses and other current assets	3,463,430	3,567,504
Refundable taxes	5,380,029	3,248,908
Deferred tax assets	950,477	868,629
Total current assets	58,215,367	65,226,979
Property and equipment, net	5,051,717	4,709,907
Deferred tax assets	52,690,910	50,768,525
Intangibles and other assets, net	3,667,398	2,070,217
Goodwill	35,438,289	35,337,428
Intangible assets from acquisitions, net	4,309,478	1,576,687
Total assets	$ 159,373,159	$ 159,689,743
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 8,763,090	$ 11,165,616
Accrued expenses and other current liabilities	6,158,966	5,106,021
Deferred revenue	2,020,728	1,649,851
Total current liabilities	16,942,784	17,921,488
Other non-current liabilities	1,005,444	2,076,332
Total liabilities	17,948,228	19,997,820
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.01 par value. Authorized 137,500,000 shares;		
Class A: 12,500,000 shares authorized; 11,131,716 and 10,869,216 shares issued and outstanding, respectively, at December 31, 2009; 10,500,632 and 10,238,132 shares issued and outstanding, respectively, at December 31, 2010	111,317	105,006
Class B: 125,000,000 shares authorized; 25,193,875 and 24,499,205 shares issued and outstanding, respectively, at December 31, 2009, including 2,541,802 of restricted stock at December 31, 2009; and 25,480,181 and 25,256,908 shares issued and outstanding, respectively, at December 31, 2010, including 3,213,750 of restricted stock at December 31, 2010	251,939	254,802
Treasury stock	(3,204,884)	(1,360,238)
Additional paid-in capital	281,952,605	281,421,696
Accumulated deficit	(137,686,046)	(140,729,343)
Total stockholders' equity	141,424,931	139,691,923
Total liabilities and stockholders' equity	$ 159,373,159	$ 159,689,743

See accompanying notes to consolidated financial statements.

MARCHEX, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

	Years ended December 31,		
	2008	2009	2010
Revenue	$ 146,374,922	$ 93,261,201	$ 97,565,607
Expenses:			
Service costs [1]	66,022,359	47,632,864	57,557,213
Sales and marketing [1]	31,951,963	17,890,196	13,530,198
Product development [1]	17,485,518	14,477,906	16,804,032
General and administrative [1]	19,652,781	16,049,461	17,506,440
Amortization of intangible assets from acquisitions [2]	13,957,728	5,492,850	2,728,493
Total operating expenses	149,070,349	101,543,277	108,126,376
Impairment of goodwill	(169,299,000)	—	—
Impairment of intangible assets	(7,424,706)	—	—
Gain on sales and disposals of intangible assets, net	4,133,082	4,711,845	6,771,888
Loss from operations	(175,286,051)	(3,570,231)	(3,788,881)
Other income (expense):			
Interest income	673,671	60,443	76,162
Interest and line of credit expense	(90,868)	(98,539)	(107,209)
Other	893,263	21,533	159,642
Total other income (expense)	1,476,066	(16,563)	128,595
Loss before provision for income taxes	(173,809,985)	(3,586,794)	(3,660,286)
Income tax benefit	(45,946,357)	(1,524,790)	(616,989)
Net loss	(127,863,628)	(2,062,004)	(3,043,297)
Convertible preferred stock dividends, conversion payment and premium on preferred stock redemption, net	(39,738)	—	—
Dividends paid to participating securities	(228,517)	(187,455)	(198,514)
Net loss applicable to common stockholders	$(128,131,883)	$ (2,249,459)	$ (3,241,811)
Basic and diluted net loss per share applicable to Class A and Class B common stockholders	$ (3.52)	$ (0.07)	$ (0.10)
Dividends paid per share	$ 0.08	$ 0.08	$ 0.08
Shares used to calculate basic net loss per share applicable to common stockholders			
Class A	10,963,724	10,884,257	10,660,607
Class B	25,468,281	22,829,994	21,992,914
Shares used to calculate diluted net loss per share applicable to common stockholders			
Class A	10,963,724	10,884,257	10,660,607
Class B	36,432,005	33,714,251	32,653,521

[1] Excludes amortization of intangible assets from acquisitions.

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

Service costs	$ 12,519,723	$ 5,448,406	$ 2,728,493
Sales and marketing	1,170,860	—	—
General and administrative	267,145	44,444	—
Total	$ 13,957,728	$ 5,492,850	$ 2,728,493

See accompanying notes to consolidated financial statements.

MARCHEX, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

	Convertible preferred stock		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	Shares	Amount			
Balances at December 31, 2007	6,024	$ 1,446,649	11,109,216	$113,717	32,106,016	$321,061	(2,289,659)	$(22,116,275)	$329,835,529	$ (7,712,206)	$ 301,888,475
Issuance of common stock upon exercise of stock options	—	—	—	—	164,378	1,643	—	—	953,678	—	955,321
Income tax benefits of option exercises	—	—	—	—	—	—	—	—	266,470	—	266,470
Issuance of common stock under employee stock purchase plan	—	—	—	—	5,706	57	—	—	46,878	—	46,935
Issuance of restricted stock to employees	—	—	—	—	167,300	1,673	—	—	—	—	1,673
Repurchase of preferred stock	(6,024)	(1,446,649)	—	—	—	—	—	—	(468)	—	(1,447,117)
Repurchase of Class B common stock	—	—	—	—	—	—	(3,798,086)	(32,583,955)	—	—	(32,583,955)
Conversion of Class A common stock to Class B common stock	—	—	(150,000)	(1,500)	150,000	1,500	—	—	—	—	—
Repurchase of unvested restricted stock	—	—	—	—	—	—	(411,807)	(4,118)	—	—	(4,118)
Stock compensation from options and restricted stock, net of estimated forfeitures	—	—	—	—	—	—	—	—	11,282,552	—	11,282,552
Retirement of treasury stock	—	—	—	—	(3,919,836)	(39,198)	3,919,836	39,311,427	(39,272,229)	—	—
Net loss	—	—	—	—	—	—	—	—	—	(127,863,628)	(127,863,628)
Common stock cash dividends	—	—	—	—	—	—	—	—	(3,186,648)	—	(3,186,648)
Convertible preferred stock dividends paid	—	—	—	—	—	—	—	—	—	(48,208)	(48,208)
Balances at December 31, 2008	—	$ —	10,959,216	$112,217	28,673,564	$286,736	(2,579,716)	$(15,392,921)	$299,925,762	$(135,624,042)	$ 149,307,752
Issuance of common stock upon exercise of stock options	—	—	—	—	36,600	366	—	—	81,309	—	81,675
Income tax shortfall of option exercises and restricted stock vesting, net	—	—	—	—	—	—	—	—	(1,841,031)	—	(1,841,031)
Issuance of common stock under employee stock purchase plan	—	—	—	—	10,638	106	—	—	38,967	—	39,073
Issuance of restricted stock to employees	—	—	—	—	1,178,100	11,781	—	—	—	—	11,781
Repurchase of Class B common stock	—	—	—	—	—	—	(2,752,293)	(10,721,348)	—	—	(10,721,348)
Conversion of Class A common stock to Class B common stock	—	—	(90,000)	(900)	90,000	900	—	—	—	—	—
Repurchase of unvested restricted stock	—	—	—	—	—	—	(157,688)	(1,577)	—	—	(1,577)
Stock compensation from options and restricted stock, net of estimated forfeitures	—	—	—	—	—	—	—	—	9,512,844	—	9,512,844
Retirement of treasury stock	—	—	—	—	(4,795,027)	(47,950)	4,795,027	22,910,962	(22,863,012)	—	—
Net loss	—	—	—	—	—	—	—	—	—	(2,062,004)	(2,062,004)
Common stock cash dividends	—	—	—	—	—	—	—	—	(2,902,234)	—	(2,902,234)
Balances at December 31, 2009	—	$ —	10,869,216	$111,317	25,193,875	$251,939	(694,670)	$ (3,204,884)	$281,952,605	$(137,686,046)	$ 141,424,931
Issuance of common stock upon exercise of stock options	—	—	—	—	81,974	820	—	—	371,387	—	372,207
Income tax shortfall of option exercises and restricted stock vesting, net	—	—	—	—	—	—	—	—	(536,787)	—	(536,787)
Issuance of common stock under employee stock purchase plan	—	—	—	—	3,304	33	—	—	17,165	—	17,198
Issuance of restricted stock to employees	—	—	—	—	1,358,000	13,580	—	—	—	—	13,580
Repurchase of Class B common stock	—	—	—	—	—	—	(1,234,409)	(6,534,158)	—	—	(6,534,158)
Conversion of Class A common stock to Class B common stock	—	—	(631,084)	(6,311)	631,084	6,311	—	—	—	—	—
Repurchase of unvested restricted stock	—	—	—	—	—	—	(82,250)	(822)	—	—	(822)
Stock compensation from options and restricted stock, net of estimated for feitures	—	—	—	—	—	—	—	—	10,794,969	—	10,794,969
Retirement of treasury stock	—	—	—	—	(1,788,056)	(17,881)	1,788,056	8,379,626	(8,361,745)	—	—
Net loss	—	—	—	—	—	—	—	—	—	(3,043,297)	(3,043,297)
Common stock cash dividends	—	—	—	—	—	—	—	—	(2,815,898)	—	(2,815,898)
Balances at December 31, 2010	—	$ —	10,238,132	$105,006	25,480,181	$254,802	(223,273)	$ (1,360,238)	$281,421,696	$(140,729,343)	$ 139,691,923

See accompanying notes to consolidated financial statements.

MARCHEX, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Years ended December 31,		
	2008	2009	2010
Net loss	$(127,863,628)	$ (2,062,004)	$ (3,043,297)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Amortization and depreciation	23,498,899	11,703,791	7,693,840
Impairment of goodwill	169,299,000	—	—
Impairment of intangible assets	7,424,706	—	—
Facility relocation recoveries	(16,012)	—	—
Leasehold improvement incentive	—	—	779,100
Gain on sales of fixed assets, net	(2,048)	(9,057)	(1,614)
Gain on sales and disposals of intangible assets, net	(4,133,082)	(4,711,845)	(6,771,888)
Allowance for doubtful accounts and advertiser credits	2,663,639	975,417	1,348,009
Stock-based compensation	11,350,577	9,597,332	10,831,848
Deferred income taxes	(49,558,320)	4,231,713	2,004,233
Excess tax benefit related to stock options	(60,857)	(68,827)	(36,104)
Change in certain assets and liabilities:			
Accounts receivable, net	(6,090,544)	5,975,445	(6,778,466)
Refundable taxes	(1,060,079)	(3,678,280)	1,631,475
Prepaid expenses, other current assets and restricted cash	(1,807,921)	327,371	(987,664)
Accounts payable	850,355	(3,659,208)	2,486,325
Accrued expenses and other current liabilities	2,712,431	(1,267,415)	(320,441)
Deferred revenue	(655,785)	(235,982)	(307,158)
Other non-current liabilities	(28,448)	28,809	859,566
Net cash provided by operating activities	26,522,883	17,147,260	9,387,764
Purchases of property and equipment	(3,284,914)	(2,383,063)	(3,441,256)
Cash paid for acquisitions	(127,522)	—	—
Proceeds from sales of property and equipment	38,043	9,057	1,616
Proceeds from sales of intangible assets	4,364,608	4,921,277	6,779,213
Purchases of intangibles and changes in other non-current assets	(208,052)	(12,141)	(115,989)
Net cash provided by investing activities	782,163	2,535,130	3,223,584
Deferred financing costs paid	(89,955)	—	—
Capital lease obligation principal payments	(47,741)	(38,981)	(6,162)
Excess tax benefit related to stock options	60,857	68,827	36,104
Preferred stock dividends and conversion payment	(48,208)	—	—
Repurchase of redeemable preferred stock	(1,447,117)	—	—
Repurchase of Class B common stock for treasury stock	(32,583,955)	(10,721,348)	(6,534,158)
Common stock dividends payments	(3,186,650)	(2,902,234)	(2,815,898)
Proceeds from exercises of stock options	951,204	80,098	372,207
Proceeds from issuance of restricted stock to employees	1,673	11,781	9,411
Proceeds from employee stock purchase plan	46,935	39,073	17,198
Net cash used in financing activities	(36,342,957)	(13,462,784)	(8,921,298)
Net increase (decrease) in cash and cash equivalents	(9,037,911)	6,219,606	3,690,050
Cash and cash equivalents at beginning of period	36,456,307	27,418,396	33,638,002
Cash and cash equivalents at end of period	$ 27,418,396	$ 33,638,002	$37,328,052
Supplemental disclosure of cash flow information:			
Cash paid during the period for income taxes, net of refunds	4,782,041	(2,106,982)	(4,335,928)
Cash paid during the period for interest	49,201	68,540	77,210
Supplemental disclosure of non-cash investing and financing activities:			
Acquisition and offering costs recorded in accounts payable and accrued expenses	31,148	—	—
Property and equipment acquired in accounts payable and accrued expenses	56,698	801,465	53,914
Leasehold improvement incentive recorded in other current assets and other non-current liabilities	—	779,100	211,320

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

The consolidated financial statements include the accounts of Marchex and its wholly-owned subsidiaries. Certain reclassifications have been made to the consolidated financial statements in the prior years to conform to the current year presentation.

(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 and proceeds in-transit from credit and debit card transactions with settlement terms of less than five days to be cash equivalents. Cash and cash equivalents totaled approximately $33.6 million and $37.3 million at December 31, 2009 and 2010, respectively. 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, 2009 and 2010: cash and cash equivalents, accounts receivable, refundable taxes, accounts payable and accrued liabilities. The carrying value of cash and cash equivalents, accounts receivable, refundable taxes, accounts payable and accrued liabilities approximates their fair value based on the liquidity of these financial instruments or based on their short-term nature.

(d) Accounts Receivable

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

Allowance for Doubtful Accounts

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

The allowance for doubtful account activity for the periods indicated is as follows:

	Balance at beginning of period	Charged to costs and expenses	Write-offs, net of recoveries	Balance at end of period
December 31, 2008	$ 465,283	$ 538,158	$ 186,475	$ 816,966
December 31, 2009	816,966	58,562	409,028	466,500
December 31, 2010	466,500	343,391	353,241	456,650

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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:

	Balance at beginning of period	Additions charged against revenue	Credits processed	Balance at end of period
December 31, 2008	$214,877	$ 2,125,480	$1,854,120	$486,237
December 31, 2009	486,237	916,853	939,280	463,810
December 31, 2010	463,810	1,004,618	829,575	638,853

(e) Property and Equipment

Property and equipment are stated at cost. Depreciation on computers and other related equipment, purchased and internally developed software, and furniture and fixtures is calculated on the straight-line method over the estimated useful lives of the assets, generally averaging three years. Leasehold improvements are amortized straight-line over the shorter of the lease term or estimated useful lives of the assets ranging from three to eight years.

(f) Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed in business combinations accounted for under the purchase method.

The Company applies the provisions of FASB ASC 350. Goodwill and intangible assets 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 are no longer depreciated.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

(h) Revenue Recognition

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

	Years ended December 31,		
	2008	2009	2010
Partner and Other Revenue Sources	$ 77,284,284	$ 61,698,440	$ 71,536,906
Proprietary Traffic Sources	69,090,638	31,562,761	26,028,701
Total Revenue	$ 146,374,922	$ 93,261,201	$ 97,565,607

The Company's partner network revenues are primarily generated using third-party distribution networks to deliver the advertisers' listings. The distribution network includes mobile and online search engines and applications, directories, destination sites, shopping engines, third-party Internet domains or websites, other targeted Web-based content, and offline sources. The Company generates revenue upon delivery of qualified and reported phone calls or click-throughs to our advertisers or to advertising services providers' listings. The Company pays a revenue share to the distribution partners to access their mobile, online, offline and other user traffic. Other revenues include the Company's call provisioning and call tracking services, presence management services, campaign management services and natural search optimization services.

The Company's proprietary traffic revenues are generated from the Company's portfolio of owned websites which are monetized with pay-for-call or pay-per-click listings that are relevant to the websites, 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 websites and calls or clicks on a particular listing or completes the specified action, the Company receives a fee.

The Company's primary sources of revenue are the performance-based advertising services, which include pay-for-call services, pay-per-click services, cost-per-action services and historically feed management and related services. These primary sources amounted to greater than 78% of revenue for the years ended December 31, 2008, 2009 and 2010. The secondary sources of revenue are campaign management services, natural search optimization services, and outsourced search marketing platforms. These secondary sources amounted to less than 22% of revenue for the years ended December 31, 2008, 2009 and 2010. The Company has no barter transactions.

The Company recognizes revenue upon the completion of its performance obligation, provided that: (1) evidence of an arrangement exists; (2) the arrangement fee is fixed and determinable; and (3) collection is reasonably assured.

In certain cases, the Company records revenue based on available and reported preliminary information from third parties. Collection on the related receivables may vary from reported information based upon third party refinement of the estimated and reported amounts owing that occurs subsequent to period ends.

In providing call advertising services and pay-per-click advertising, the Company generates revenue upon delivery of qualified and reported phone calls or click-throughs to advertisers or advertising service providers' listings. These advertisers and advertising service providers pay the Company a designated transaction fee for each phone call or click-through, which occurs when an online user makes a phone call or clicks on any of their advertisement listings after it has been placed by the Company or by the Company's distribution partners. Each phone call or click-through on an advertisement listing represents a completed transaction. The advertisement listings are displayed within the Company's distribution network, which includes mobile and online search

engines and applications, directories, destination sites, shopping engines, third-party Internet domains or websites, the Company's portfolio of owned websites and other targeted Web-based, and offline content. The Company also generates revenue from cost-per-action services, which occurs when the online user is redirected from one of the Company's websites or a third-party website in our distribution network to an advertiser website and completes the specified action.

The Company generates revenue from reseller partners and publishers utilizing its web-based technologies. The Company is paid a management or agency fee based on the total amount of the purchase made by the advertiser. 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 our 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 websites or specific pages of a website 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.

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

Advertisers pay the Company additional fees for services such as campaign management and natural search engine optimization. Advertisers generally pay the Company on a click-through basis, although in certain cases the Company receives a fixed fee for delivery of these services. In some cases we also deliver banner campaigns for select advertisers. The Company may also charge initial set-up, account, service or inclusion fees as part of its 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 eight 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.

Other inclusion fees are generally associated with monthly or annual subscription-based services where an advertiser pays a fixed amount to be included in our index of listings or our distribution partners' index of listings. Revenues from these subscription arrangements are recognized ratably over the service period.

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 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 websites 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.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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 websites, 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 websites include depreciation of websites, network equipment and internally developed software, co-location charges of the Company's website 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. Internet-based advertising is concentrated primarily with four providers. The amounts for online and related outside marketing activities were approximately $21.8 million, $8.1 million and $3.8 million for the years ended December 31, 2008, 2009 and 2010, 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.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

(n) Stock-Based Compensation

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

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

Stock-based compensation expense has been included in the same lines as compensation paid to the same employees in the consolidated statement of operations in accordance with SEC Accounting Bulletin No. 107, *Share-based Payment*.

(o) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The Company has used estimates related to several financial statement amounts, including revenues, allowance for doubtful accounts, allowance for advertiser credits, useful lives for property and equipment, intangible assets, the fair-value of the Company's common stock and stock option awards, the impairment of goodwill and intangible assets and a valuation allowance for deferred tax assets. Actual results could differ from those estimates.

In certain cases, the Company records revenue based on available and reported preliminary information from third parties. Collection on the related receivables may vary from reported information based upon third party refinement of the estimated and reported amounts owing that occurs subsequent to period ends.

(p) Concentrations

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

A substantial majority of the Company's revenue earned from advertisers is generated through arrangements with distribution partners. If the Company does not add new distribution partners, renew its current distribution partner agreements or replace traffic lost from terminated distribution agreements with other sources or if its distribution partners' search businesses do not grow or are adversely affected, our revenue and results of operations may be materially and adversely affected. In addition, several of these distribution partners may be considered potential competitors.

There were no distribution partners representing more than 10% of consolidated revenue for the years ended December 31, 2008, 2009 and 2010.

The advertisers representing more than 10% of consolidated revenue are as follows:

	Years ended December 31,		
	2008	2009	2010
Advertiser A	11%	11%	*
Advertiser B	14%	22%	23%
Advertiser C	11%	*	*
Advertiser D	13%	11%	*

Advertiser A, B, and C are also distribution partners.

* Less than 10% of revenue.

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

	At December 31,	
	2009	2010
Advertiser A	11%	*
Advertiser B	43%	40%
Advertiser E	*	11%

* Less than 10% of accounts receivable.

(q) Segment Reporting and Geographic Information

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

Revenues from advertisers by geographical areas are tracked on the basis of the location of the advertiser. The vast majority of the Company's revenue and accounts receivable are derived from domestic sales to advertisers engaged in various activities involving the Internet and mobile devices.

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

	Years ended December 31,		
	2008	2009	2010
United States	98%	98%	96%
Canada	1%	1%	4%
Other countries	1%	1%	*
	100%	100%	100%

* Less than 1% of revenue

(r) Net Loss Per Share

The Company computes net loss per share of Class A and Class B common stock using the two class method. Under the provisions of the two class method, basic net loss per share is computed by dividing net loss applicable to common stockholders by the weighted average number of common shares outstanding during the year. Diluted net loss per share is computed by dividing net 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 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 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 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

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

earnings for the year had been distributed. Considering the terms of the Company's charter which provides that, if and when dividends are declared on our common stock in accordance with Delaware General Corporation Law, equivalent dividends shall be and have been paid with respect to the shares of Class A common stock and Class B common stock and that both classes of common stock have identical dividend rights and would share equally in our net assets in the event of liquidation, we have allocated undistributed earnings (losses) on a proportionate basis. Additionally, the Company has paid dividends equally to both classes of common stock and the restricted shares since it initiated a quarterly cash dividend in November 2006.

The Company adopted certain new provisions within FASB ASC 260 that became effective for the Company on January 1, 2009. Under these provisions, 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 adoption of FASB ASC 260 increased the basic and fully diluted net loss per common share for the year ended December 31, 2008 to $3.52 from $3.51. The following table calculates net loss to net loss applicable to common stockholders used to compute basic net loss per share for the periods ended:

	Years ended December 31,					
	2008		2009		2010	
	Class A	Class B	Class A	Class B	Class A	Class B
Numerator:						
Net loss	$ (38,547,628)	$ (89,316,000)	$ (726,212)	$ (1,335,792)	$ (1,058,375)	$ (1,984,922)
Dividends paid to participating securities	—	(228,517)	—	(187,455)	—	(198,514)
Convertible preferred stock dividends and conversion payment	(11,803)	(27,460)	—	—	—	—
Premium on redemption of preferred stock	(143)	(332)	—	—	—	—
Net loss applicable to common stockholders	$ (38,559,574)	$ (89,572,309)	$ (726,212)	$ (1,523,247)	$ (1,058,375)	$ (2,183,436)
Denominator:						
Weighted average number of shares outstanding used to calculate basic net loss per share	10,963,724	25,468,281	10,884,257	22,829,994	10,660,607	21,992,914
Basic net loss per share applicable to common stockholders	$ (3.52)	$ (3.52)	$ (0.07)	$ (0.07)	$ (0.10)	$ (0.10)

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

The following table calculates net loss to diluted net loss applicable to common stockholders used to compute diluted net loss per share for the periods ended:

	Years ended December 31,					
	2008		2009		2010	
	Class A	Class B	Class A	Class B	Class A	Class B
Numerator:						
Net loss	$ (38,547,628)	$ (89,316,000)	$ (726,212)	$ (1,335,792)	$ (1,058,375)	$ (1,984,922)
Dividends paid to participating securities	—	(228,517)	—	(187,455)	—	(198,514)
Convertible preferred stock dividends and conversion payment	(11,803)	(27,460)	—	—	—	—
Premium on redemption of preferred stock	(143)	(332)	—	—	—	—
Reallocation of net loss for Class A shares as a result of conversion of Class A to Class B shares		(38,559,574)	—	(726,212)	—	(1,058,375)
Net loss applicable to common stockholders	$ (38,559,574)	$ (128,131,883)	$ (726,212)	$ (2,249,459)	$ (1,058,375)	$ (3,241,811)
Denominator:						
Weighted average number of shares outstanding used to calculate basic net loss per share	10,963,724	25,468,281	10,884,257	22,829,994	10,660,607	21,992,914
Conversion of Class A to Class B common shares outstanding	—	10,963,724	—	10,884,257	—	10,660,607
Weighted average number of shares outstanding used to calculate diluted net loss per share	10,963,724	36,432,005	10,884,257	33,714,251	10,660,607	32,653,521
Diluted net loss per share applicable to common stockholders	$ (3.52)	$ (3.52)	$ (0.07)	$ (0.07)	$ (0.10)	$ (0.10)

For the year ended December 31, 2008, the net loss applicable to common stockholders used in computing basic and diluted net loss per share applicable to common stockholders included preferred stock dividends and the premium on the redemption of 6,000 shares of the Company's 4.75% convertible exchangeable preferred stock of $40,000. The diluted net loss applicable to common stockholders included the premium on the preferred stock redemption and the convertible stock dividends paid during the year on the redeemed shares. The premium on the preferred stock redemption is the difference between the carrying value per share of the redeemed preferred shares and the $240 per share (plus commissions) paid by the Company to the preferred stockholders. Total cash consideration paid to the preferred stockholders was approximately $1.4 million. The weighted average number of shares to calculate the diluted net loss per share excludes the weighted average number of shares from the assumed conversion of the redeemed preferred stock. There was no preferred stock outstanding in 2009 and 2010.

The computation of diluted net loss per share excludes the following because their effect would be anti-dilutive:

- For the years ended December 31, 2008 and 2009, outstanding options to acquire 4,517,154 and 4,701,151 respectively, of Class B common stock with a weighted average exercise price of $12.21 and

$9.59. For the year ended December 31, 2010, outstanding options to acquire 6,410,589 of Class B common stock with weighted average exercise price of $8.48 which includes 765,000 stock options with vesting based on meeting certain service and market conditions. These stock options were also excluded from the denominator of the computation of basic net loss per share.

- For the year ended December 31, 2008, warrants to acquire 6,500 shares of Class B common stock at an exercise price equal to $8.45 per share.
- For the years ended December 31, 2008, 2009 and 2010, 2,348,968, 2,541,802 and 3,213,750 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. Additionally, these unvested shares were excluded from the computation of basic net loss per share.
- For the year ended December 31, 2010, 255,000 restricted stock units with vesting based on meeting certain service and market conditions. These restricted stock units were also excluded from the denominator of the computation of basic net loss per share.

(s) Guarantees

FASB ASC 460 provides accounting guidance surrounding liability recognition and disclosure requirements related to guarantees. In the ordinary course of business, the Company is not subject to potential obligations under guarantees that fall within the scope of FASB ASC 460 except for standard indemnification provisions that are contained within many of the Company's advertiser and distribution partner agreements, and give rise only to the disclosure requirements prescribed by FASB ASC 460.

In certain agreements, the Company has agreed to indemnification provisions of varying scope and terms with advertisers, vendors and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of agreements or representations and warranties made by the Company, services to be provided by the Company and intellectual property infringement claims made by third parties. As a result of these provisions, the Company may from time to time provide certain levels of financial support to contract parties to seek to minimize the impact of any associated litigation in which they may be involved. To date, there have been no known events or circumstances that have resulted in any material costs related to these indemnification provisions and no liabilities therefore have been recorded in the accompanying consolidated financial statements. However, the maximum potential amount of the future payments we could be required to make under these indemnification provisions could be material.

(t) Recently Issued Accounting Standards

In October 2009, the FASB issued Accounting Standards Update (ASU) 2009–No. 13 *Multiple-Deliverable Revenue Arrangements*, which amends FASB ASC 605 *Revenue Recognition.* This provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. ASU 2009–No. 13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company adopted the provisions of this update beginning in the first quarter of 2011 and the Company does not expect this new guidance to have a material impact on the Company's financial statements.

Effective January 1, 2009, the Company adopted the requirements of FASB ASC 260, which addresses whether 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 and would

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

need to be included in the earnings allocation in computing earnings per share under the two-class method. Under the two-class method required, a portion of net income is allocated to these participating securities and therefore is excluded from the calculation of EPS allocated to common stock. This adoption required all prior-period earnings per share data to be adjusted retrospectively.

(2) Related Party Transactions

During the year ended December 31, 2010, a member of the Company's board of directors entered into a consulting agreement with an advertiser of the Company. The majority of the Company's revenue from the advertiser was derived from our feed management services which were discontinued as of December 31, 2009. The amounts related to this advertiser follow:

	Year ended December 31,		
	2008	2009	2010
Revenue	$458,112	$ 327,431	$ 26,286

	At December 31, 2009	At December 31, 2010
Accounts Receivable	$ 18,387	$ —

(3) Property and Equipment

Property and equipment consisted of the following:

	Years ended December 31,	
	2009 (1)	2010 (1)
Computer and other related equipment	$ 9,169,886	$ 10,709,539
Purchased and internally developed software	6,436,820	6,202,642
Furniture and fixtures	936,170	1,129,410
Leasehold improvements	1,210,415	1,665,030
	$ 17,753,291	$ 19,706,621
Less: accumulated depreciation and amortization	(12,701,574)	(14,996,714)
Property and equipment, net	$ 5,051,717	$ 4,709,907

(1) Excludes the original cost and accumulated depreciation of fully-depreciated fixed assets which were $6.7 million and $10.8 million at December 31, 2009 and 2010, respectively.

The Company has capitalized certain costs of internally developed software for internal use. The estimated useful life of costs capitalized is evaluated for each specific project. Amortization begins in the period in which the software is ready for its intended use. The Company had no internally developed software costs that had not commenced amortization as of December 31, 2009 and 2010, respectively.

Depreciation and amortization expense incurred by the Company was approximately $4.3 million, $3.6 million and $3.0 million for the years ended December 31, 2008, 2009 and 2010, respectively.

(4) 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 matures and all outstanding borrowings are

due in April 2011. 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, 2009 and 2010, the Company had no borrowings under the Credit Agreement. During the first quarter of 2011, the Company signed an amendment to the Credit Agreement which extends the maturity period through to April 1, 2014 and increases the applicable margin rate by 25 basis points.

(5) 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 improvement which the Company accounts as a lease incentive. The Company recognizes rent expense under such agreements on a straight-line basis over the lease term with any lease incentive amortized as a reduction of rent expense over the lease term. The Company also has other contractual obligations expiring over varying time periods through 2013. 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:

	Facilities operating leases	Other contractual obligations	Total
2011	$ 1,557,470	$ 2,254,266	$ 3,811,736
2012	1,818,945	1,238,804	3,057,749
2013	2,044,869	175,350	2,220,219
2014	2,123,395	—	2,123,395
2015	2,200,806	—	2,200,806
2016 and after	5,176,332	—	5,176,332
Total minimum payments	$ 14,921,817	$ 3,668,420	$ 18,590,237

In June 2009, the Company entered into a lease agreement for office facilities in Seattle, Washington which commenced in the fourth quarter of 2009 and expires on March 31, 2018. In the third quarter of 2010, the lessor paid $779,000 towards certain leasehold improvements which the Company accounted for as a lease incentive and is amortizing as a reduction of rent expense over the lease term.

In May 2010, the Company entered into a lease agreement for office facilities in New York, New York which commenced in the second quarter of 2010 and expires in March 2018. Future minimum payments related to these new facilities are approximately as follows: $209,000 in 2011, $243,000 in 2012, $249,000 in 2013, $273,000 in 2014, $295,000 in 2015 and $682,000 in aggregate thereafter.

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. Future minimum payments related to this additional office space are approximately as follows: $144,000 in 2011, $225,000 in 2012, $275,000 in 2013, $283,000 in 2014, $292,000 in 2015, and $688,000 in aggregate thereafter.

Rent expense incurred by the Company was approximately $1.5 million, $1.7 million and $1.7 million for the years ended December 31, 2008, 2009 and 2010, respectively.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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.

(6) Income Taxes

The components of loss before provision for income taxes consist of the following:

	Years ended December 31,		
	2008	2009	2010
United States	$ (173,650,589)	$ (3,449,176)	$ (3,518,531)
Foreign	(159,396)	(137,618)	(141,755)
Loss before provision for income taxes	$ (173,809,985)	$ (3,586,794)	$ (3,660,286)

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

	Years ended December 31,		
	2008	2009	2010
Current provision (benefit)			
Federal	$ 3,203,758	$ (3,979,634)	$ (2,167,588)
State	101,514	9,800	46,000
Deferred provision (benefit)			
Federal	(49,321,340)	4,197,961	2,004,233
State	(218,681)	—	—
Foreign	(18,370)	33,752	—
Tax expense (benefit) of equity adjustment for stock option exercises and restricted stock vesting	200,809	(1,888,234)	(605,212)
Other	105,953	101,565	105,578
Total income tax benefit	$ (45,946,357)	$ (1,524,790)	$ (616,989)

Income tax benefit differed from the amounts computed by applying the U.S. federal income tax rates of 35%, 34% and 34% for 2008, 2009, and 2010, respectively, to loss before provision for income taxes as a result of the following:

	Years ended December 31,		
	2008	2009	2010
Income tax benefit at U.S. statutory rate	$ (60,833,495)	$ (1,219,509)	$ (1,244,498)
State taxes, net of valuation allowance	11,136	(2,100)	30,360
Non-deductible stock compensation	1,026,200	624,000	757,000
Non-deductible goodwill impairment	13,599,863	—	—
Effect of non-U.S. operations, net of valuation allowance	(18,370)	80,542	48,197
Research tax credits	—	(1,333,026)	(239,785)
Other non-deductible expenses	268,309	325,303	31,737
Total income tax benefit	$ (45,946,357)	$ (1,524,790)	$ (616,989)

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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

	As of December 31,	
	2009	2010
Deferred tax assets:		
Accrued liabilities not currently deductible	$ 862,925	$ 1,384,032
Intangible assets-excess of financial statement over tax amortization	20,901,287	20,093,413
Goodwill impairment recognized on financial statements not tax basis	28,601,178	24,939,259
Stock-based compensation	3,701,742	4,890,405
State net operating losses	3,522,884	3,758,430
Research & experimental tax credits	—	323,015
Other	183,017	126,736
Gross deferred tax assets	57,773,033	55,515,290
Valuation allowance	(3,573,119)	(3,826,384)
Net deferred tax assets	54,199,914	51,688,906
Deferred tax liabilities:		
Excess of tax over financial statement depreciation	558,527	51,752
Total deferred tax liabilities	558,527	51,752
Net deferred tax assets	$ 53,641,387	$ 51,637,154

At December 31, 2009 and 2010, the Company has certain tax effected state and foreign net operating loss carryforwards of approximately $3.6 million and $3.8 million, respectively. The Company does not have a history of taxable income in the relevant jurisdiction and the state 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 and foreign net operating loss carryforwards as of December 31, 2008 and 2009. The change in the valuation allowance in 2010 was approximately $253,000.

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

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

In 2008, as part of its annual impairment test of goodwill and impairment analyses in accordance with FASB ASC 350 on certain long-lived assets, the Company concluded that the carrying amount of the Company's goodwill and certain intangible assets exceed its implied fair value and recorded a pre-tax impairment charge of $176.7 million, primarily driven by adverse equity market conditions that caused a decrease in current market multiples and the decline in the Company's stock price. Of the $176.7 million impairment charge, $7.4 million was related to intangible assets and $129.6 million was related to deductible goodwill and the remaining $39.7 million was related to non-deductible goodwill. As a result of this impairment deferred tax assets increased by $48.0 million. The tax deductible goodwill and intangible assets are generally amortizable over 15 years from the applicable acquisition date.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

Although realization is not assured, the Company believes it is more likely than not, based on its operating performance, deferred tax liabilities, projections of future taxable income and tax planning strategies, that the Company's net deferred tax assets, excluding certain state and foreign net operating loss carryforwards, will be realized. In determining that it was more likely than not that the Company would realize the deferred tax assets, factors considered included: historical taxable income, historical trends related to advertiser usage rates, projected revenues and expenses, macroeconomic conditions, issues facing our industry, existing contracts, our ability to project future results and any appreciation of our other assets. The majority of the deferred tax assets have arisen due to deductions taken in the financial statements related to the impairment of goodwill and the amortization of intangible assets recorded in connection with various acquisitions that are tax-deductible over 15 year periods. Based on projections of future taxable income and tax planning strategies, the Company expects to be able to recover these assets. The amount of the net deferred tax assets considered realizable, however, could be reduced in the near term if the Company's projections of future taxable income are reduced or if the Company does not perform at the levels it is projecting. This could result in increases to the valuation allowance for deferred tax assets and a corresponding increase to income tax expense of up to the entire net amount of deferred tax assets.

At December 31, 2009 and 2010, the Company had 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 net operating loss (NOL) and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. The Company believes that such a change has occurred, and that the utilization of the approximately $1.7 million in carryforwards is limited such that substantially all of these NOL carryforwards will never be utilized. Accordingly, the Company has not included these federal NOL carryforwards in its deferred tax assets.

During the years ended December 31, 2008, 2009 and 2010, the Company recognized excess tax benefits (shortfall) on stock option exercises and restricted stock vesting of approximately $266,000, ($1.8) million, and $537,000, respectively, which were recorded to additional paid in capital.

From time to time, various state, federal and other jurisdictional tax authorities undertake audits of the Company and its filings. In evaluating the exposure associated with various tax filing positions, the Company on occasion accrues charges for uncertain positions. The Company adjusts these contingencies in light of changing facts and circumstances, such as the outcome of tax audits. Audits of the Company's federal tax returns for 2005 through 2007, comprising approximately $282,000 of uncertain tax positions, are expected to be 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. We did not have any uncertain positions prior to January 1, 2009.

The reconciliation of our tax contingencies is as follows:

	December 31, 2010
Gross tax contingencies—January 1, 2009	$ —
Gross increases to tax positions associated with prior periods	$ 408,185
Gross increases to current period tax positions	$ 54,815
Settlements	$ —
Lapse of statute of limitations	$ —
Gross tax contingencies—December 31, 2009	$ 463,000
Gross increases to tax positions associated with prior periods	$ —
Gross increases to current period tax positions	$ 83,000
Settlements	$ —
Lapse of statute of limitations	$ —
Gross tax contingencies—December 31, 2010	$ 546,000

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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 2006 are within the statue of limitations and are under examination or may be subject to examination.

(7) Stockholders' Equity

(a) Common Stock and Authorized Capital

The authorized capital stock of the Company consisted of 1,000,000 shares of undesignated preferred stock and 125,000,000 shares of Class B common stock. The Company's board of directors has the authority to issue up to 1,000,000 shares of preferred stock, $0.01 par value in one or more series and has the authority to designate rights, privileges and restrictions of each such series, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series.

The Company has two classes of authorized common stock: Class A common stock and Class B common stock. Except with respect to voting rights, the Class A and Class B shares have identical rights. Each share of Class A common stock is entitled to twenty-five votes per share, and each share of Class B common stock is entitled to one vote per share. Each share of Class A common stock is convertible at the holder's option into one share of Class B common stock.

In accordance with the stockholders' agreement signed by Class A and the founding Class B common stockholders, the following provisions survived the Company's initial public offering: Class A stockholders other than Russell C. Horowitz may only sell, assign or transfer their Class A stock to existing Class A stockholders or to the Company and in the event of transfers of Class A stock not expressly permitted by the stockholders' agreement, such shares of Class A stock shall be converted into shares of Class B common stock.

In connection with the Company's initial public offering in March 2004, the underwriters were granted warrants, exercisable for a four-year period commencing one year after the offering date, to purchase 120,000 shares of Class B common stock at an exercise price equal to $8.45 per share. As of December 31, 2008, approximately 6,500 warrants remained unexercised. The warrants expired as of December 31, 2009.

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 February 2008, the Company's board of directors authorized an increase in the share repurchase program for the Company to repurchase up to 5 million shares in the aggregate (less shares previously repurchased under the share repurchase program) of the Company's Class B common stock. In August and December 2008, the Company's board of directors authorized an increase in the share repurchase program for the Company to repurchase up to 6 and 7 million shares, respectively, in the aggregate (less shares previously repurchased under the share repurchase program) of the Company's Class B common stock. In February 2009, the Company's board of directors authorized an increase in the share repurchase program for the Company to repurchase up to 9 million shares in the aggregate (less shares previously repurchased under the share repurchase program) of the Company's Class B common stock. In December 2009, the Company's board of directors authorized an increase 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. 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, 2008, the Company repurchased approximately 3.8 million shares of Class B common stock for $32.6 million under this repurchase program. During the year ended December 31, 2009, the Company repurchased approximately 2.8 million shares of Class B common stock for $10.7 million under this repurchase program. During the year ended December 31, 2010, the Company repurchased approximately 1.2 million shares of Class B common stock for $6.5 million under this repurchase program. In 2011, the Company has repurchased shares of Class B common stock for a total cash expenditure of approximately $122,000.

During the years ended December 31, 2009 and 2010, the Company's board of directors authorized the retirement of 4.8 million and 1.8 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 2008, 2009 and 2010, 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 2008	$ 0.02	February 4, 2008	$ 822	February 15, 2008
April 2008	$ 0.02	May 2, 2008	$ 804	May 15, 2008
July 2008	$ 0.02	August 4, 2008	$ 792	August 15, 2008
October 2008	$ 0.02	November 6, 2008	$ 770	November 17, 2008
January 2009	$ 0.02	February 6, 2009	$ 741	February 17, 2009
April 2009	$ 0.02	May 4, 2009	$ 716	May 15, 2009
July 2009	$ 0.02	August 7, 2009	$ 724	August 17, 2009
October 2009	$ 0.02	November 6, 2009	$ 721	November 16, 2009
January 2010	$ 0.02	February 4, 2010	$ 706	February 15, 2010
April 2010	$ 0.02	May 5, 2010	$ 704	May 17, 2010
July 2010	$ 0.02	August 6, 2010	$ 705	August 16, 2010
October 2010	$ 0.02	November 5, 2010	$ 701	November 15, 2010

In January 2011, the Company's board of directors declared a quarterly dividend in the amount of $0.02 per share on its Class A common stock and Class B common stock which was paid on February 15, 2011 to the holders of record as of the close of business on February 4, 2011. This quarterly dividend totaled approximately $710,000.

(b) Convertible Preferred Stock

During 2008, the Company's board of directors declared the following quarterly dividends on the Company's 4.75% convertible exchangeable preferred stock:

Approval Date	Per share dividend	Date of record	Total amount (in thousands)	Payment date
January 2008	$ 2.97	February 4, 2008	$ 16	February 15, 2008
April 2008	$ 2.97	May 2, 2008	$ 15	May 15, 2008
July 2008	$ 2.97	August 4, 2008	$ 12	August 15, 2008

In 2008, the Company repurchased the remaining 6,024 shares of preferred stock outstanding for a total cash expenditure of $1.4 million.

(c) Stock Option Plan

The Company's stock incentive plan (the "Plan") allows for grants of both stock option and restricted stock awards to employees, officers, non-employee directors, and consultants and such options may be designated as incentive or non-qualified stock options at the discretion of the Plan's Administrative Committee. In May 2010, the Company's Board of Directors approved an amendment to the Company's 2003 Amended and Restated Stock Incentive Plan (the "Plan") which provides for the grant of restricted stock units to eligible participants 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 2,049,352 to 12,280,521 on January 1, 2008 and by 1,852,653 to 14,133,174 on January 1, 2009 and by 1,768,421 to 15,901,595 on January 1, 2010 and by 1,774,752 to 17,676,347 on January 1, 2011. 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 2008, 2009 and 2010.

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

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

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

	Twelve months ended December 31,		
	2008	2009	2010
Service costs	$ 493,023	$ 473,575	$ 804,946
Sales and marketing	1,681,815	1,400,470	799,088
Product development	1,664,467	591,892	1,014,458
General and administrative	7,511,272	7,131,395	8,213,356
Total stock-based compensation	$ 11,350,577	$ 9,597,332	$ 10,831,848

FASB ASC 718 requires the benefits of tax deductions in excess of the compensation cost recognized for those options to be classified as financing cash inflows rather than operating cash inflows, on a prospective basis. This amount is shown as "Excess tax benefit related to stock options" on the consolidated statement of cash flows.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

During 2010, the Company's Compensation Committee of the Board of Directors (the "Compensation Committee") approved stock option grants of 292,500 and restricted stock grants of 560,000 to certain executive officers. The stock options vest 25% on the first annual anniversary of the grant date and 1/12th of the remainder will vest quarterly thereafter for the following three years. The restricted shares will vest 25% on each of the first, second, third and fourth annual anniversaries of the grant date. The fair value of these awards is $4.8 million and is being recognized over their respective vesting periods.

During 2010, the Compensation Committee also approved equity awards with service and market vesting conditions to certain executive officers which included 711,000 stock option grants and grants of 237,000 restricted stock units. Each restricted stock unit represents the right to receive one share of the Company's Class B common stock upon satisfaction of certain vesting considerations. These equity awards were issued in three separate tranches and each successive tranche will vest on the later of (a) the 12, 21, or 30 month anniversary of the grant date, respectively, and (b) the Company's Class B common stock upon reaching certain average stock price targets for each tranche. The fair value of these equity awards is $3.2 million and is being recognized over their requisite service periods.

The Company uses the Black-Scholes option pricing model to estimate the per share fair value of stock option grants with time-based vesting. The Black-Scholes model relies on a number of key assumptions to calculate estimated fair values. For years ended December 31, 2008, 2009 and 2010, 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,		
	2008	2009	2010
Expected life (in years)	4.0	3.5 – 4.0	3.5 – 6.25
Risk-free interest rate	1.28% to 3.13%	1.41% to 2.20%	1.00% to 2.08%
Expected volatility	52% to 58%	64% to 66%	66% to 68%
Weighted average expected volatility	54%	65%	67%
Expected dividend yield	0.6%	1.10%	0.91% to 1.10%

During 2010, the Company issued equity awards which include stock options and restricted stock units that have vesting based on a combination of certain service and market conditions. The compensation costs and derived service periods for stock option grants with vesting based on a combination of service and market conditions are estimated using the binomial lattice model to determine the fair value for each tranche and a Monte Carlo simulation to determine the derived service period for each tranche. The risk-free interest rate is based on the on 10 year bond rate as of the valuation date based on the contractual life of the option.

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 period presented:

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

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 outstanding	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Balance at December 31, 2007	392,555	4,872,788	$ 12.94	7.61	
Increase to option pool January 1, 2008	2,049,352	—			
Options granted	(1,307,550)	1,307,550	10.03		
Restricted stock granted	(167,300)	—			
Restricted stock forfeited	401,000	—			
Options exercised	—	(164,378)	5.81		
Options expired	440,594	(440,594)	16.46		
Options forfeited	1,058,212	(1,058,212)	12.09		
Balance at December 31, 2008	2,866,863	4,517,154	12.21	6.79	
Increase to option pool January 1, 2009	1,852,653	—			
Options granted [1]	(1,533,300)	1,533,300	4.39		
Restricted stock granted	(1,178,100)	—			
Restricted stock forfeited	157,688	—	7.95		
Options exercised	—	(36,600)	2.23		
Options expired	815,388	(815,388)	13.96		
Options forfeited	497,315	(497,315)	10.69		
Balance at December 31, 2009	3,478,507	4,701,151	9.59	5.61	
Increase to option pool January 1, 2010	1,768,421				
Options granted [2]	(2,376,450)	2,376,450	6.62		
Restricted stock granted	(1,613,000)	—			
Restricted stock forfeited	82,250	—			
Options exercised	—	(81,974)	4.54		
Options expired	296,214	(296,214)	13.49		
Options forfeited	288,824	(288,824)	7.12		
Balance at December 31, 2010	1,922,766	6,410,589	$ 8.48	7.20	$14,340,943
Options exercisable at December 31, 2010		3,090,440	$ 10.60	5.21	$ 6,072,453

(1) Includes 880,000 stock options which vest over 2 years.
(2) Includes 765,000 stock options that have vesting based on 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, 2010:

	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 – $ 3.58	567,725	3.95	3.22	455,095	3.14
$ 3.59 – $ 4.59	127,825	8.62	4.28	19,604	4.37
$ 4.63 – $ 4.63	800,000	8.61	4.63	375,000	4.63
$ 4.64 – $ 5.29	995,300	9.19	4.88	63,298	4.85
$ 5.30 – $ 6.50	740,512	6.81	5.85	280,837	6.43
$ 6.61 – $ 8.54	57,775	9.54	7.03	4,098	8.23
$ 8.67 – $ 8.77	969,500	9.77	8.77	24,187	8.71
$ 8.81 – $11.02	762,843	6.68	10.49	532,347	10.52
$11.27 – $12.93	606,985	4.90	12.59	561,555	12.64
$12.94 – $24.54	782,124	4.65	18.60	774,419	18.64
	6,410,589	7.20	$ 8.48	3,090,440	$ 10.60

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

	Years ended December 31,		
	2008	2009	2010
Weighted average fair value of options granted	$ 10.03	$ 4.39	$ 6.62
Intrinsic value of options exercised	$ 772,000	$ 79,000	$ 293,000
Total grant date fair value of restricted stock vested	$ 7,961,000	$ 9,898,000	$ 5,023,000

At December 31, 2010, there was $8.9 million of stock option compensation expense related to non-vested awards not yet recognized, which is expected to be recognized over a weighted average period of 2.4 years

During the years ended December 31, 2008, 2009 and 2010 gross proceeds recognized from the exercise of stock options was approximately $975,000, $82,000 and $372,000, respectively. The excess tax benefits (shortfall) on stock option exercises and restricted stock vesting during the years ended December 31, 2008, 2009 and 2010, of approximately $266,000, ($1.8 million) and ($537,000), respectively, were recorded to additional paid in capital.

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

Restricted stock awards and restricted stock unit activity for the years ended December 31, 2008, 2009 and 2010 is summarized as follows:

	Shares/ Units	Weighted Average Grant Date Fair Value
Unvested at December 31, 2007	3,240,266	12.44
Granted	167,300	10.32
Vested	(646,791)	12.31
Forfeited	(411,807)	11.17
Unvested at December 31, 2008	2,348,968	12.55
Granted	1,178,100	3.86
Vested	(827,578)	11.96
Forfeited	(157,688)	7.95
Unvested at December 31, 2009	2,541,802	$ 8.99
Granted (1)	1,613,000	6.67
Vested	(603,802)	8.32
Forfeited	(82,250)	4.52
Unvested at December 31, 2010	3,468,750	$ 8.13

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

The Company issues restricted stock to employees for future services and in connection with acquisitions. Restricted stock awards grants are generally measured at fair value on the date of grant based on the number of awards granted and the quoted price of the Company's common stock. Restricted shares issued are accounted for under FASB ASC 718 using the straight-line method net of estimated forfeitures.

During the year ended December 31, 2010, the Company issued equity awards which include stock options and restricted stock units that have vesting based on a combination of certain service and market conditions. The compensation costs and derived service periods for restricted stock units with vesting based on a combination of service and market conditions are estimated using the binomial lattice model to determine the fair value for each tranche and a Monte Carlo simulation to determine the derived service period for each tranche. As of December 31, 2010, there was $21.3 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. The total grant date fair value of restricted stock awards vested during years ended December 31, 2008, 2009 and 2010 was $8.0 million, $9.9 million and $5.0 million, respectively. The Company realized a tax benefit in the years ended December 31, 2008, 2009 and 2010 related to the vesting of restricted shares of approximately $2.3 million, $1.2 million and $640,000, respectively.

The following table summarizes stock-based compensation expense related to all stock-based awards:

	Years ended December 31,		
	2008	2009	2010
Stock-based compensation:			
Total stock-based compensation included in net loss	$ 11,351,000	$ 9,597,000	$ 10,832,000
Income tax benefit related to stock-based compensation included in net loss	$ 3,075,000	$ 2,723,000	$ 3,012,000

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

(d) 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, 2008, 5,706 shares were purchased at prices ranging from $5.54 to $11.70 per share. During the year ended December 31, 2009, 10,638 shares were purchased at prices ranging from $3.22 to $4.83 per share. During the year ended December 31, 2010, 3,304 shares were purchased at prices ranging from $3.66 to $9.06 per share. At December 31, 2010, approximately 228,000 shares were available under the purchase plan for future issuance.

(8) 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.

(9) 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. Under the 401(k) Plan, management may, but is not obligated to, match a portion of the employee contributions up to a defined maximum. No matching contributions have been made to date.

(10) Intangible Assets from Acquisitions

Intangible assets from acquisitions consisted of the following:

	As of December 31, 2009		
	Gross Carrying Amount [1]	Accumulated Amortization [1]	Net
Trademarks/domains	42,436,650	(38,414,950)	4,021,700
Acquired technology	16,900,000	(16,612,222)	287,778
	$ 59,336,650	$ (55,027,172)	$ 4,309,478

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

	As of December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net
Trademarks/domains	41,992,305	(40,415,618)	1,576,687

(1) Excludes the original cost and accumulated amortization of fully-amortized intangible assets which were $24.8 million and $41.7 million at December 31, 2009 and 2010, respectively.

Amortizable intangible assets are amortized on a straight-line basis over their useful lives. Trademark/domains have an weighted average useful life from date of purchase of 4.8 years. Aggregate amortization expense incurred by the Company for the years ended December 31, 2008, 2009 and 2010, was approximately $14.0 million, $5.5 million and $2.7 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: $1.4 million in 2011 and $166,000 in 2012.

(11) Goodwill

Changes in the carrying amount of goodwill for the years ended December 31, 2009 and 2010 are as follows:

Balance as of December 31, 2008	$ 35,475,782
Other	(37,493)
Balance as of December 31, 2009	35,438,289
Other	(100,861)
Balance as of December 31, 2010	$ 35,337,428

In the fourth quarter of 2008, the Company performed its annual impairment testing in accordance with FASB ASC 350. As a result of this testing, the Company recorded a $169.3 million non-cash impairment charge on goodwill. The impairment charge resulted in part from adverse equity and credit market conditions that caused a sustained decrease in current market multiples and the company's stock price, a decrease in valuations of U.S. public companies and corresponding increased costs of capital created by the weakness in the U.S. financial markets and decreases in cash flow forecasts for the Company and markets where the Company operates. We determined the fair value of the Company's single reporting unit considering the Company's stock price on and around the date of impairment testing and estimates of future operating results and discounted cash flows.

The testing of goodwill and other intangible assets for impairment requires the Company to make significant estimates about its future performance and cash flows, as well as other assumptions. These estimates can be affected by numerous factors, including changes in economic, industry or market conditions, changes in business operations, changes in competition or changes in the share price of the Company's common stock and market capitalization. Significant and sustained declines in the Company's stock price and market capitalization, a significant decline in its expected future cash flows or a significant adverse change in the Company's business climate, among other factors, could result in the need to perform an impairment analysis under FASB ASC 350 in future interim periods. The Company cannot accurately predict the amount and timing of any future impairment of goodwill or other intangible assets. Should the value of goodwill or other intangible assets become impaired, the Company would record an impairment charge, which could have an adverse effect on its financial condition and results of operations.

No impairment of the Company's goodwill and other intangible assets have been identified in 2010. 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

MARCHEX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

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 to the extent that the carrying amount exceeds such asset's fair value.

(12) Intangible and other assets, net

Intangible and other assets, net consisted of the following:

	As of December 31,	
	2009	2010
Internet domain names	$ 15,686,370	$ 15,683,320
Less accumulated amortization	(12,417,328)	(13,877,115)
Internet domain names, net	3,269,042	1,806,205
Other assets:		
Registration fees, net	146,412	35,143
Other	251,944	228,869
Total intangibles and other assets, net	$ 3,667,398	$ 2,070,217

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, 2010 to renew or extend the term for domain names was $2.2 million. The weighted average renewal period for registration fees as of December 31, 2010 was approximately one year.

Amortization expense for internet domain names for the years ended December 31, 2008, 2009 and 2010, was approximately $3.9 million, $2.0 million and $1.6 million, respectively.

Based upon the current amount of domains subject to amortization, the estimated expense for the next five years is as follows: $1.2 million in 2011, $422,000 in 2012, $175,000 in 2013, $40,000 in 2014 and $0 thereafter.

In the fourth quarter of 2008 in conjunction with its annual impairment testing of goodwill and in light of the then adverse macroeconomic environment and significant decrease in market capitalization the Company also performed a review on certain of its intangible assets for impairment. As a result the Company recorded a $7.4 million non-cash impairment charge on certain technology and domain assets. The impairment charge resulted from the decreased cash flow forecasts created by the weakness in the U.S. financial markets, decreases in the markets where the Company operates and changes in the planned utilization of the assets. We determined the fair value using estimates of future operating results and discounted cash flows.

(13) Subsequent Events

In January 2011, the Company's board of directors declared a regular quarterly dividend in the amount $0.02 per share on the Company's Class A and Class B common stock. The Company paid these dividends on February 15, 2011 to the holders of record as of the close of business on February 4, 2011. The Company paid approximately $710,000 for these quarterly dividends.

During the first quarter of 2011, the Company signed an amendment to the Credit Agreement which extends the maturity period through to April 1, 2014 and increases the applicable margin rate by 25 basis points.

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, 2010 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, 2010.

(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, 2010, 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 2011 annual meeting of stockholders (the "2011 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, 2010.

Our Code of Ethics for our Chief Executive Officer, Chief Financial Officer and Senior Financial Officers is available on our website, www.marchex.com, by clicking "Investors" and then "Corporate Governance".

ITEM 11. EXECUTIVE COMPENSATION.

The information required under this item may be found in the 2011 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 2011 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 2011 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 2011 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 5. 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, 2009 and 2010;
- Consolidated Statements of Operations for the years ended December 31, 2008, 2009 and 2010;
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 2008, 2009 and 2010;
- Consolidated Statements of Cash Flow for the years ended December 31, 2008, 2009 and 2010; 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 14, 2011.

MARCHEX, INC.

By: /S/ MICHAEL A. ARENDS
Michael A. Arends
Chief Financial Officer
(Principal Financial and 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 14, 2011
/S/ MICHAEL A. ARENDS **Michael A. Arends** **Chief Financial Officer** **(Principal Financial and Accounting Officer)**	March 14, 2011
/S/ JOHN KEISTER **John Keister** **Executive Vice Chairman and Director**	March 14, 2011
/S/ DENNIS CLINE **Dennis Cline** **Director**	March 14, 2011
/S/ ANNE DEVEREUX **Anne Devereux** **Director**	March 14, 2011

Signature	Date
/S/ NICOLAS J. HANAUER **Nicolas J. Hanauer** **Vice Chairman and Director**	March 14, 2011
/S/ M. WAYNE WISEHART **M. Wayne Wisehart** **Director**	March 14, 2011

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 Current Report on Form 8-K filed with the SEC on May 2, 2005 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 Current Report on Form 8-K filed with the SEC on August 2, 2005 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 Current Report on Form 8-K filed with the SEC on May 5, 2006 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 Current Report on Form 8-K filed with the SEC on June 2, 2006 and incorporated herein by reference).
2.9	Agreement and Plan of Merger, dated as of August 9, 2007, by and among Marchex, Inc., VoiceStar, Inc., and the Shareholders of VoiceStar, Inc (Filed with the Registrant's Current Report on Form 8-K filed with the SEC on September 24, 2007 and incorporated herein by reference).
3.1	Certificate of Incorporation of the Registrant (Filed with the Registrant's Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on December 11, 2003 and incorporated herein by reference).

Exhibit Number	Description of Document
3.2	Amended and Restated Certificate of Incorporation of the Registrant (Filed with Registrant's Amendment No. 2 to the Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on March 19, 2004 and incorporated herein by reference).
3.3	By-laws of the Registrant (Filed with the Registrant's Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on December 11, 2003 and incorporated herein by reference).
3.4	Amended and Restated By-Laws of the Registrant (Filed with the Registrant's Current Report on Form 8-K filed with the SEC on December 10, 2007 and incorporated herein by reference).
4.1	Specimen stock certificate representing shares of Class B Common Stock of the Registrant (Filed with the Registrant's Amendment No. 3 to the Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on March 30, 2004 and incorporated herein by reference).
*10.1	Amended and Restated 2003 Stock Incentive Plan (Filed with the Registrant's Amendment No. 2 to the Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on March 19, 2004 and incorporated herein by reference).
*10.2	Executive Employment Agreement, dated as of January 17, 2003, by and between Russell C. Horowitz and the Registrant (Filed with the Registrant's Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on December 11, 2003 and incorporated herein by reference).
*10.3	Executive Employment Agreement, dated as of May 1, 2003, by and between Michael A. Arends and the Registrant (Filed with the Registrant's Amendment No. 1 to the Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on February 19, 2004 and incorporated herein by reference).
*10.4	2004 Employee Stock Purchase Plan (Filed with the Registrant's Amendment No. 1 to the Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on February 19, 2004 and incorporated herein by reference).
10.5	Representative Director and Officer Indemnification Agreement, dated as of February 4, 2004, by and between Russell C. Horowitz and the Registrant (Filed with the Registrant's Amendment No. 2 to the Registration Statement on Form SB-2 (No. 333-111096) filed with the SEC on March 19, 2004 and incorporated herein by reference).
†††+10.6	License Agreement, effective February 14, 2005, by and between Overture Services, Inc. and Registrant (Filed with the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004 filed with the SEC on March 31, 2005 and incorporated herein by reference).
†††*10.7	2004 Employee Stock Purchase Plan, as amended on December 8, 2005 (Filed with the Registrant's Current Report on Form 8-K filed with the SEC on December 9, 2005 and incorporated herein by reference).
*10.8	Marchex, Inc. Annual Incentive Plan (Filed with the Registrant's Current Report on Form 8-K filed with the SEC on October 3, 2006 and incorporated herein by reference).
*10.9	Form of Restricted Stock Agreement (Filed with the Registrant's Current Report on Form 8-K filed with the SEC on October 3, 2006 and incorporated herein by reference).
*10.10	Form of Retention Agreement (Filed with the Registrant's Current Report on Form 8-K filed with the SEC on October 3, 2006 and incorporated herein by reference).

Exhibit Number	Description of Document
+10.11	YAHOO! Publisher Network Agreement # 1-8196149, effective July 1, 2007, by and between Overture Services, Inc. d/b/a YAHOO! Search Marketing, 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 November 9, 2007 and incorporated herein by reference).
+10.12	Master Services and License Agreement dated as of October 1, 2007, by and between MDNH, Inc. and YellowPages.com LLC. (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 filed with the SEC on March 11, 2008 and incorporated herein by reference).
+10.13	Credit Agreement dated as of April 1, 2008, by and between Marchex, Inc., 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).
+10.14	Advertising Insertion Order dated as of July 1, 2007, as amended, by and between the Registrant, MDNH, Inc. and Intelius Sales Company, LLC (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed with the SEC on March 10, 2010 and incorporated herein by reference).
*10.15	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).
*10.16	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).
*10.17	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).
*10.18	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).
*10.19	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).
*10.20	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).
10.21	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).
*10.22	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).
+10.23	Amendment No. 4 to Advertising Insertion Order effective as of December 31, 2009, by and between the Registrant, MDNH, Inc. and Intelius Sales Company, LLC (Filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed with the SEC on March 10, 2010 and incorporated herein by reference).
+10.24	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).

Exhibit Number	Description of Document
*10.25	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).
*10.26	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).
*10.27	Form of Notice of Grant of Executive Officer Restricted Stock Units (Filed with the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2010 and incorporated herein by reference).
*10.28	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).
*10.29	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).
+10.30	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).
*10.31	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).
†*10.32	Marchex, Inc. Amended and Restated Annual Incentive Plan.
†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 CEO pursuant to Rule 13a-14(a)15d-14(a).
†31(ii)	Certification of CFO pursuant to Rule 13a-14(a)15d-14(a).
††32.1	Certification of CEO pursuant to Section 1350.
††32.2	Certification of CFO pursuant to Section 1350.

* Management contract or compensatory plan or arrangement.
(+) 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 2.5

ASSET PURCHASE AGREEMENT
BY AND AMONG
MARCHEX, INC.
PIKE STREET INDUSTRIES, INC.
AND THE STOCKHOLDERS OF PIKE STREET INDUSTRIES, INC.
DATED April 26, 2005

TABLE OF CONTENTS

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

EXHIBITS

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

SCHEDULES

8.6 Required Consents
11.4 Percentage of Purchase Price

DISCLOSURE SCHEDULES

1.1 Purchase of Assets
1.2 Retained Assets
1.3 Assumed Liabilities
2.1 Corporate Organization
2.3 Consents and Approvals; No Violations
2.4 Capitalization
2.5 Financial Statements; Business Information
2.6 Absence of Undisclosed Liabilities

ASSET PURCHASE AGREEMENT

ASSET PURCHASE AGREEMENT (the "Agreement") dated as of April 26, 2005, by and among Marchex, Inc., a Delaware Corporation (the "Parent" and "Buyer"), Pike Street Industries, Inc., a Washington corporation (the "Seller" or the "Company"), and the undersigned holders of all of the issued and outstanding capital stock of the Company (collectively, the "Stockholders").

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

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements set forth herein, and intending to be legally bound hereby, the parties hereby agree as follows:

ARTICLE I

PURCHASE AND SALE OF ASSETS

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

(a) all of the Company's rights under all licenses, permits, authorizations, orders, registrations, certificates, approvals, consents and franchises, or any pending applications for any of the foregoing, to the extent such rights relate to the conduct of the Company's Business (as defined in Section 1.1) and in each case to the extent transferable or assignable;

(b) all of the interest of the Company and the Stockholders (whether held directly or indirectly through any other person or entity) in intellectual property, patents, copyrights, trade names, service marks, trademarks, domain names, websites, licenses and sublicenses granted in respect thereto and rights thereunder, used in the conduct of the Company's Business, remedies against infringement thereof and rights of protection of interests therein and all related goodwill;

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

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

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

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

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

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

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

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

For the purposes of this Agreement, the Company's Business shall mean the development, operation and/or management of websites, content services or directory services in the following markets:

(a) Yellow Pages;

(b) White Pages;

(c) Local or geographical search and content; and

(d) College Leads.

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

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

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

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

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

(e) all of the assets set forth on Schedule 1.2.

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

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

(a) all liabilities of the Company relating to indebtedness for borrowed money whether or not such liabilities are reflected on the unaudited balance sheet of the Company as of March 31, 2005, included in the Financial Statements (as defined herein);

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

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

(d) all liabilities of the Company for Taxes (as hereinafter defined) incurred in respect of or measured by the income of the Company earned or realized on or prior to the Closing Date, including any gain and income from the sale of the Purchased Assets and other transactions contemplated herein;

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

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

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

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

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

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

1.5 Purchase Price. Upon the terms and subject to the conditions contained in this Agreement, in reliance upon the representations, warranties and agreements of the Company and the Stockholders contained herein, and in consideration of the sale, assignment, transfer and delivery of the Purchased Assets and in addition to the assumption by Buyer of the Assumed Liabilities, subject to Sections 1.6 and 1.7 below, Buyer will pay or issue the following (a) an amount of cash at Closing equal to Twelve Million Five Hundred Thousand Dollars ($12,500,000.00) (the "Cash Consideration"), (b) that number of shares of Class B Common Stock, $0.01 par value per share, of the Parent (the "Parent Common Stock") as shall be obtained by dividing $4,000,000 by the Closing Market Price (as hereinafter defined) (the "Equity Consideration"), and (c) that number of shares of Parent Common Stock as shall be obtained by dividing $3,500,000 by the Closing Market Price (the "Restricted Equity Consideration") as provided in Section 6.8. Such Cash Consideration, Equity Consideration and Restricted Equity Consideration which shall be issuable or payable at the Closing, as the case may be, as provided herein shall in the aggregate be referred to as the "Purchase Price." For purposes of this Agreement, the term "Closing Market Price" shall mean the average of the last quoted sale price for shares of Parent Common Stock on The Nasdaq National Market for the ten (10) trading days immediately prior to the Closing Date.

1.6 Distribution of Purchase Price. After payment of all fees and expenses incurred by the Company in connection with the this Agreement in accordance with Section 6.4 of this Agreement, at the Closing the Purchase Price shall be distributed as follows: (a) the Cash Consideration shall be wired to an account designated by the Company, less $1,250,000 which shall be placed in escrow to satisfy the obligations pursuant to Article XI hereof (the "Cash Escrow), (b) the Equity Consideration shall be distributed to the Stockholders on behalf of the Company, less that number of shares of Parent Common Stock issued as part of the Equity Consideration as shall be obtained by dividing $400,000 by the Closing Market Price which shall be placed in escrow to satisfy the obligations pursuant to Article XI hereof (the "Equity Escrow), and (c) the Restricted Equity Consideration shall be distributed to the Stockholders on behalf of the Company, less that number of shares of Parent Common Stock issued as part of the Restricted Equity Consideration as shall be obtained by dividing $1,350,000 by the Closing Market Price which shall be placed in escrow to satisfy the obligations pursuant to Article XI hereof (the "Restricted Equity Escrow" and together with the Equity Escrow, the "Stock Escrow").

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

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

1.9 Closing. Unless this Agreement shall have been terminated and the transactions herein contemplated shall have been abandoned pursuant to Article X and subject to the satisfaction or waiver of the conditions set forth in Articles VIII and IX, the closing of the transactions described herein (the "Closing") will take place as promptly as practicable (and in any event within two (2) business days) after satisfaction or waiver of the conditions set forth in Articles VIII and IX, at the offices of Marchex, Inc., 413 Pine Street, Suite 500, Seattle, WA 98101, unless another date, time or place is agreed to in writing by the parties hereto. The date of such Closing is referred to herein as the "Closing Date."

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

control all of the Purchased Assets. At the Closing, Buyer shall execute and deliver to the Company such other documents as the Company may reasonably request in order to evidence Buyer's assumption of the Assumed Liabilities. Buyer will, from time to time after the Closing Date, take such additional action and deliver such further documents as the Company may reasonably request in order effectively to assume the Assumed Liabilities.

1.11 Withholding. Parent or Buyer shall be entitled to deduct and withhold from the Purchase Price payable or otherwise deliverable pursuant to this Agreement or the Stockholders shall remit to the Parent, such amounts as Parent or Buyer may be required to pay, deduct or withhold therefrom under the Code or under any provision of state, local or foreign Tax law, including withholding taxes due, if any, with respect to the issuance and vesting of the Restricted Equity Consideration. To the extent such amounts are so paid, deducted or withheld, such amounts shall be treated for all purposes under this Agreement as having been paid to the person to whom such amounts would otherwise have been paid.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE STOCKHOLDERS

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

2.1 Corporate Organization.

The Company is a corporation duly organized and validly existing under the laws of the State of Washington. The Company has all requisite corporate power and authority to own, operate and lease the properties and assets it now owns, operates and leases and to carry on its Business as presently conducted. The Company is duly qualified to transact business as a foreign corporation and is in good standing in the jurisdictions set forth in Schedule 2.1(a) hereto, which are the only jurisdictions where such qualification is required by reason of the nature of the properties and assets currently owned, operated or leased by it or the Business currently conducted by it, except for such jurisdictions where the failure to be so qualified would not have a Company Material Adverse Effect (as defined below). The Company has previously delivered to the Parent complete and correct copies of the Articles of Incorporation of the Company (certified by the secretary of state for the State of Washington 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 have been amended since the date of certification thereof, nor has any action been taken for the purpose of effecting any amendment of such instrument. The term "Company Material Adverse Effect" means, for purposes of this Agreement, any change, event or effect that is, or that is reasonably likely to be, materially adverse to the business, operations, assets, liabilities, financial condition or results of operations of the Company, taken as a whole.

2.2 Authorization. The Company has full corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The Stockholders have the legal capacity to enter into this Agreement and to carry out the transactions contemplated hereby. The execution, delivery and performance of this Agreement by the Company and the Stockholders have been duly and validly authorized and approved by all necessary corporate actions. This Agreement constitutes the legal and binding obligation of the Company and the Stockholders, enforceable against each of them in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally and by general principles of equity, regardless of whether such enforceability is considered in a proceeding in law or in equity.

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

2.4 Capitalization.

(a) The authorized capital stock of the Company consists of 200,000 shares of Common Stock, $0.01 par value per share (the "Stock") of which 200,000 shares of Stock are issued and outstanding. The beneficial and record ownership of all of the outstanding shares of Stock is set forth on Schedule 2.4(a) attached hereto. All outstanding shares of Stock (i) are duly authorized, validly issued, fully paid and nonassessable; (ii) were not issued in violation of any pre-emptive rights or federal or state securities laws; and (iii) are not subject to preemptive rights created by statute, the Articles of Incorporation or By-Laws of the Company or any agreement or document to which the Company is a party or by which it is bound.

Except as set forth above, as of the date of this Agreement no shares of Stock, other equity securities, partnership interests or similar ownership interests or other voting securities of the Company or any securities exchangeable or convertible into or exercisable for such capital stock, other equity securities, partnership interests or similar ownership interests or other voting securities of the Company, were issued, reserved for issuance or outstanding. There are no outstanding stock appreciation rights with respect to shares of Stock. There are no bonds, debentures, notes or other indebtedness of the Company having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which stockholders of the Company may vote. Except as set forth above, there are no securities, partnership interests or similar ownership interests, options, warrants, calls, rights (including pre-emptive rights) or commitments, understandings, arrangements, agreements or contracts (either written or oral) of any kind to which the Company is a party, or by which the Company is bound, obligating the Company to issue, deliver or sell, or cause to be issued, delivered or sold, any shares of capital stock or other securities of the Company or obligating the Company to issue, grant, extend, accelerate the vesting of or enter into any such security, partnership interest or similar ownership interest, option, warrant, call, right, commitment, understanding, arrangement, agreement or contract (either written or oral).

The Company has never repurchased, redeemed or otherwise acquired or caused the repurchase, redemption or acquisition of any shares of capital stock or other securities of the Company, and there are no amounts owed or which may be owed to any person by the Company as a result of any repurchase, redemption or acquisition of any shares of Stock or other securities of the Company. There is no claim or basis for such a claim to any portion of the Purchase Price except as provided in Section 1.5 hereto by any current or former stockholder, option holder or warrant holder of the Company, or any other person.

There are no registration rights and there are no voting trusts, proxies or agreements or understandings with respect to any equity security of any class of securities of the Company.

(b) Since its date of incorporation, the Company has not owned, directly or indirectly, any equity securities, or options, warrants or other rights to acquire equity securities, or securities convertible into or exchangeable for equity securities, of any other corporation, or any partnership interest in any general or limited partnership or unincorporated joint venture.

2.5 Financial Statements; Business Information. (a) Attached hereto as Schedule 2.5(a) are (i) the balance sheets of the Company as of December 31, 2003 and December 31, 2004 and the statements of operations for the fiscal periods then ended, and (ii) the balance sheet of the Company as of March 31, 2005 (the "Balance Sheet") and the statements of operations of the Company for the three (3) months then ended (hereinafter collectively referred to as the "Financial Statements"). Except as set forth on Schedule 2.5, the Financial Statements (i) have been prepared on a tax basis from the books and records of the Company and (ii) have been prepared consistently during the periods covered thereby.

(b) Schedule 2.5(b) attached hereto sets forth certain statistics regarding the Company's Business including, but not limited to, information related to the Company's products, services and websites such as (i) the number of domains registered as of the date

hereof, (ii) the number of accepted or valid click-throughs for the months of December 2004 and January and February 2005 for certain partners, and (iii) the number of searches for the months of December 2004 and January and February 2005 billed to the major partners for yellow page or white page searches (collectively, the "Data") which are true and correct in all material respects as of the dates stated in the schedule. Without limiting the materiality of any other representations, warranties and covenants of the Company and the Stockholders contained herein, the Company and the Stockholders specifically acknowledge that the accuracy in all material respects of such Data is material to Parent's decision to enter into the transactions contemplated by this Agreement and to pay the Purchase Price.

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

2.6 Absence of Undisclosed Liabilities. Except (i) as set forth or reserved against in the Balance Sheet and (ii) for obligations and liabilities incurred since March 31, 2005 in the ordinary course of business, which do not individually or in the aggregate exceed $10,000, the Company does not, except as set forth on Schedule 2.6, have any liabilities or obligations of any nature, whether accrued, absolute, contingent or otherwise. Schedule 2.6 sets forth a true and correct aged list of all accounts payable of the Company as of March 31, 2005. Except as set forth on Schedule 2.6, no part of the Assumed Liabilities or the Purchased Assets consists of or involves, directly or indirectly, any loan or other obligation outstanding from, or contract in effect with any stockholder or for which any stockholder is or may be liable under guaranty or otherwise, or any loan, obligation or contract with any of the stockholders, officers or directors of the Company or any affiliate of any of them.

2.7 Absence of Certain Changes or Events. Except as set forth on Schedule 2.7 hereto, since December 31, 2004, the Company has carried on its Business in all material respects in the ordinary course and consistent with past practice. Except as set forth on Schedule 2.7 or as set forth or reserved against in the Balance Sheet, since December 31, 2004, the Company has not: (i) incurred any material obligation or liability (whether absolute, accrued, contingent or otherwise) except in the ordinary course of Business and consistent with past practice; (ii) experienced any Company Material Adverse Effect; (iii) made any change in accounting principle or practice or in its method of applying any such principle or practice, (iv) suffered any material damage, destruction or loss, whether or not covered by insurance, affecting its properties, assets or Business; (v) mortgaged, pledged or subjected to any lien, charge or other encumbrance, or granted to third parties any rights in, any of its properties or assets, tangible or intangible; (vi) sold or transferred any of its assets, except in the ordinary course of business and consistent with past practice, or canceled or compromised any debts or waived any claims or rights of a material nature; (vii) issued any additional Company securities, other equity securities, partnership interests or similar equity interests, or any rights, options or warrants to purchase, or securities convertible into or exchangeable for, Company securities; (viii) declared or paid any dividends on or made any distributions (however characterized) in

respect of Company securities; (ix) repurchased or redeemed any Company securities; (x) terminated, amended or waived with respect to any material contract, any material right, except in the ordinary course of business and consistent with past practice; (xi) granted any general or specific increase in the compensation payable or to become payable to any of its Employees (as that term is hereinafter defined) or any bonus or service award or other like benefit, or instituted, increased, augmented or improved any Benefit Plan (as that term is hereinafter defined); or (xii) entered into any agreement to do any of the foregoing.

2.8 Legal Proceedings, etc. Except as set forth on Schedule 2.8, there are no suits, actions, claims, proceedings (including, without limitation, arbitral or administrative proceedings) or investigations pending or, to the knowledge of the Company or the Stockholders, threatened against the Company or its properties, assets or Business or, to the knowledge of the Company or the Stockholders, pending or threatened against any of the officers, directors, partners, managers, employees, agents or consultants of the Company in connection with the business of the Company. There are no such suits, actions, claims, proceedings or investigations pending against the Company or, to the knowledge of the Company or the Stockholders, threatened against the Company challenging the validity or propriety of the transactions contemplated by this Agreement. There is no judgment, order, injunction, decree or award (whether issued by a court, an arbitrator or an administrative agency) to which the Company is a party, or involving the properties, assets or Business of the Company, which is unsatisfied or which requires continuing compliance therewith by the Company. Schedule 2.8 hereto sets forth all settlements, judgments, orders, injunctions, decrees and awards entered into or imposed which the Company is a party to or by which the Company is bound, and the Company is and has been at all times in material compliance with the terms of such settlements, judgments, orders, injunctions, decrees and awards. Schedule 2.8 hereto sets forth all suits, actions, claims, proceedings or investigations regarding any equity security of the Company which the Company or the Stockholders has ever been involved in or received notice of.

2.9 Taxes.

(a) The Company has properly and timely filed all Tax Returns (as hereinafter defined) and other filings in respect of Taxes (as hereinafter defined) required to be filed by it on or prior to the date hereof, and has in a timely manner paid all Taxes which are (or will be) due for all periods ending on or before the date hereof, whether or not shown on such Tax Returns, except to the extent the Company has established adequate reserves in accordance with GAAP (excluding accruals and reserves for deferred Taxes established to reflect timing differences between book and Tax income) on the Balance Sheet for such Taxes and disclosed the dollar amount and the components of such reserves on Schedule 2.9(a) hereof. The Company will establish, in the ordinary course of business and consistent with its past practices, any reserves (other than reserves for deferred Taxes established to reflect timing differences between book and Tax income) necessary for the payment of all Taxes of the Company for the period from date of the Balance Sheet through the Closing Date, and the Company will disclose the dollar amount of such reserves to Parent on or prior to the Closing Date. Since the date of the Balance Sheet, the Company has not incurred any liability for Taxes arising from extraordinary gains or losses, as that term is used in GAAP, outside the ordinary course of business consistent with past custom and practice. All such Tax Returns have been accurately and completely prepared in all material respects in compliance with all laws, rules and regulations.

(b) There are no actions or proceedings currently pending or, to the knowledge of the Company or the Stockholders, 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) For the purposes of the Agreement, "Tax" or "Taxes" means all federal, state and local, territorial and foreign taxes, levies, deficiencies or other assessments and other charges of whatever nature (including income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, backup withholding, social security, unemployment, disability, real property, personal property, sales, use, transfer, real property gains, registration, value added, alternative or add-on minimum, and estimated taxes and workers' compensation premiums and other governmental charges, and other obligations of the same nature as or of a nature similar to any of the foregoing) imposed by any taxing authority, as well as any obligation to contribute to the payment of Taxes determined on a consolidated, combined or unitary basis with respect to the Company or any affiliate, and including any transferee liability in respect of any tax (whether imposed by law, contractual agreement or otherwise) and any liability in respect of any tax as a result of being a member of any affiliated, consolidated, combined unitary or similar group including any liability pursuant to Treasury Regulation Section 1.1502-6, including any interest, penalty (civil or criminal), or addition thereto, whether disputed or not, as well as any expenses incurred in connection with the determination, settlement or litigation of any liability.

For purposes of this Agreement, the term "Tax Return" means any federal, state, local and foreign return, declaration, report, claim for refund, amended return, declarations of estimated Tax or information return or statement relating to Taxes, and any schedule or attachment thereto, filed or maintained, or required to be filed or maintained in connection with the calculation, determination, assessment or collection of any Tax, and including any amendment thereof, as well as, where permitted or required, combined or consolidated returns for any group of entities that include the Company or any affiliate; and reports with respect to backup withholding and other payments to third parties.

(d) The Company is not and has not been a party to or bound by any tax indemnity agreement, tax sharing agreement, tax allocation agreement or similar agreement or arrangement and the Company does not have any liability for Taxes of any person (other than the

Company) and any liability in respect of any tax as a result of being a member of any affiliated, consolidated, combined unitary or similar group under Treasury Regulation 1.1502-6 (or any similar provision of state, local or foreign law) or a transferee, successor or guarantor or by contract, indemnification or otherwise.

(e) The Company has withheld all amounts from its respective employees and other persons required to be withheld under the tax, social security, unemployment and other withholding provisions of all federal, state, local and foreign laws, and has complied with all information reporting and back-up withholding requirements, including maintenance of required records with respect thereto, in connection with amounts paid or owing to any employee, creditor, independent contractor, or other third party.

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

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

(h) The Company is not a party to any joint venture, partnership or other arrangement that is treated as a partnership for federal income tax purposes.

(i) The Company has not received any written ruling of a taxing authority relating to Taxes or entered in any written and legally binding agreement with a taxing authority relating to Taxes, including any closing agreements under Section 7121 of the Code.

(j) No claim has ever been made in writing to the Company by any authority in a jurisdiction where the Company does not file Tax Returns that it is or may be subject to taxation by that jurisdiction, and the Company neither does business in nor derives income from within or allocable to any state, local, territorial or foreign taxing jurisdiction other than those for which all Tax Returns have been furnished to the Parent.

(k) The Company has not waived any statute of limitations with respect to Taxes or agreed to any extension of time with respect to any Tax assessment or deficiency, or the collection of any Tax, which remains outstanding; and the Company has delivered or made available to the 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.

(l) The Company has not made any payments, is not obligated to make any payment, and is not a party to any agreement, contract, arrangement or plan that under any circumstances could obligate it to make any payment that will not be deductible under Section 280G of the Code, or that would be subject to an excise Tax under Section 4999 of the Code.

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

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

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

(p) Schedule 2.9(p) 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.

(q) The Company does not have any obligations to employees with respect to deferred compensation arrangements which might be subject to excise tax under Section 409A of the Code.

(r) At all times since its incorporation, 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 day of the Closing Date.

(s) The Stockholders have timely reported their distributive share of the Company's income, gain, loss, deduction and other tax items on his, her or its Tax Returns and paid all taxes due with respect to all income, gain, loss, deduction and other tax items of the Company for periods ending on or before December 31, 2003 and will do so with respect to all income, gain, loss, deduction and other tax items of the Company for calendar year 2004 and for the period ending on the Closing Date.

(t) The Company would not be liable for any Tax under Section 1374 if its assets were sold at their fair market value at the Closing Date, and the Company has not in the past ten (10) years (i) acquired assets from another corporation in a transaction in which the Company's Tax basis for the acquired assets was determined, in whole or in part, by reference to the Tax basis of the acquired assets (or any other property) in the hands of the transferor, or (ii) acquired the stock of any corporation which is a "qualified subchapter S subsidiary".

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

2.10 Title to Properties and Related Matters. (a) The Company has good and marketable title to, or a valid leasehold interest in, all of the Purchased Assets, free and clear of any claims, liens, pledges, security interests or encumbrances of any kind whatsoever (other than (i) purchase money security interests and common law vendor's liens, in each case for goods purchased on open account in the ordinary course of business and having a fair market value of less than $10,000 in each individual case and (ii) liens for Taxes not yet due and payable) and the sale and purchase of the Purchased Assets to Buyer pursuant hereto shall vest in Buyer good and marketable title to, or a valid leasehold interest in, all of the Purchased Assets, free and clear of any claims, liens, pledges, security interests or encumbrances of any kind whatsoever subject to the above exceptions.

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

(c) Schedule 2.10(c) hereto sets forth a list, which is correct and complete in all material respects, of all equipment, machinery, instruments, vehicles, furniture, fixtures and other items of personal property currently owned or leased by the Company with a book value as of February 28, 2005, in each case of $10,000 or more, other than Retained Assets. Except as set forth on Schedule 2.10(c) hereto, all such personal property is in suitable operating condition (ordinary and reasonable wear and tear excepted) and is physically located in or about one of the places of Business of the Company and is owned by the Company or is leased by the Company under one of the leases set forth in Schedule 2.10(d) hereto. None of such personal property is subject to any agreement or commitment for its use by any person other than the Company. There are no assets leased by the Company or used in the operation of the Company that are owned, directly or indirectly, by any Related Person. For the purposes hereof, Related Person shall mean any of the following (i) the Stockholders; (ii) the spouses and children of any of the Stockholders (collectively, "Near Relatives"); (iii) any trust for the benefit of any of the Stockholders or any of their respective Near Relatives; or (iv) any corporation, partnership, joint venture or other entity or enterprise owned or controlled by the Stockholders or by any of their respective Near Relatives.

(d) Schedule 2.10(d) sets forth a complete and correct list of all real property and personal property leases to which the Company is a party. The Company has previously delivered to the Parent complete and correct copies of each lease (and any amendments or supplements thereto) listed in Schedule 2.10(d) hereto. Except as set forth on Schedule 2.10(d) hereto, (i) each such lease is valid and binding, and in full force and effect; except to the extent that applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights may affect such validity or enforceability, (ii) neither the Company nor (to the knowledge of the Company or the Stockholders) any other party is in default under any such lease, and no event has occurred which constitutes, or with the lapse of time or the giving of notice or both would constitute, a default by the Company or (to the knowledge of the Company or the Stockholders) a default by any other party under such lease; (iii) to the knowledge of the Company or the Stockholders, there are no disputes or disagreements between the Company and any other party with respect to any such lease; and (iv) except as set forth on Schedule 2.10(d), there is no requirement under any such lease that the Company either obtain the lessor's consent to, or notify the lessor of, the consummation of the transactions contemplated by this Agreement.

2.11 Intellectual Property; Proprietary Rights; Employee Restrictions. For the purposes of this Agreement, the following terms have the following definitions:

"Intellectual Property" shall mean any or all of the following and all rights in, arising out of, or associated therewith: (i) all United States, international and foreign patents and applications therefor and all reissues, divisions, renewals, extensions, provisionals, continuations and continuations-in-part thereof; (ii) all inventions (whether patentable or not), invention disclosures, improvements, trade secrets, proprietary information, know how, technology, technical data and customer lists, computer programs and other computer software, user interfaces, processes and formulae, source code, object code, algorithms, architecture, structure, display screens, layouts, development tools, instructions, templates and marketing materials, designs and all documentation relating to any of the foregoing; (iii) all copyrights, copyrights registrations and applications therefor, and all other rights corresponding thereto throughout the world; (iv) all industrial designs and any registrations and applications therefor throughout the world; (v) all trade names, logos, common law trademarks and service marks, trademark and service mark registrations, intent-to-use applications and other registrations and applications therefor throughout the world; (vi) all databases and data collections and all rights therein throughout the world; (vii) all domain names; (viii) all moral and economic rights of authors and inventors, however denominated, throughout the world, and (ix) any similar or equivalent rights to any of the foregoing anywhere in the world.

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

(a) Set forth on Schedule 2.11(a) hereto is a list of all Company Intellectual Property or other Intellectual Property required to operate the Company's Business as currently conducted (other than generally available software such as Microsoft Word and the like). True and correct copies of all licenses, assignments and releases relating to such Intellectual Property have been provided to Parent prior to the date hereof, all of which are valid and binding agreements of the parties thereto, enforceable in accordance with their terms. Except as set forth on Schedule 2.11(a), the Company owns and has good and exclusive right, title and interest to, or (x) has exclusive license to, each item of Company Intellectual Property and (y) has non-exclusive license to other Intellectual Property required to operate the Company's Business as currently conducted, free and clear of any lien or encumbrance; and all such Intellectual Property rights are in full force and effect. Except as set forth on Schedule 2.11(a), the Company is the exclusive owner of all trademarks and trade names used in connection with the operation of the Company's Business as currently conducted, including the sale of any products or the provision of any services by Company. Except as set forth on Schedule 2.11(a), the Company owns exclusively, and has good title to, all copyrighted works that are Company products or which Company otherwise expressly purports to own. Except as set forth on Schedule 2.11(a), no university, government agency (whether federal or state) or other organization has sponsored research and development conducted by the Company or has any claim of right to or ownership of or other encumbrance upon the Intellectual Property rights of the Company.

(b) Except as set forth on Schedule 2.11(b), no Company Intellectual Property or product or service of the Company is subject to any proceeding or outstanding decree, order, judgment, contract, license, agreement, or stipulation restricting in any manner the use, transfer, or licensing thereof by Company or which may affect the validity, use or enforceability of such Company Intellectual Property.

(c) All patents, patent applications, trademarks, service marks, copyrights, mask work rights and domain names of the Company have been duly registered and/or filed with or issued by each appropriate governmental entity in the jurisdictions indicated on Schedule 2.11(c) hereto, all necessary affidavits of continuing use have been filed, and all necessary maintenance fees have been paid to continue all such rights in effect.

(d) To the extent that any Intellectual Property (including without limitation software, hardware, copyrightable works and the like) has been developed, created, modified or improved by a third party for the Company, except as set forth on Schedule 2.11 (d), the Company has a written agreement with such third party that assigns to the Company exclusive ownership of such Intellectual Property, each of which is a valid and binding agreement of the parties thereto, enforceable in accordance with its terms. Except as set forth on Schedule 2.11(d), the Company has the right to use all trade secrets, data, customer lists, log files, hardware designs, programming processes, software and other information required for or incident to its products or Business (including, without limitation, the operation of their respective Web sites) as presently conducted and has received no notice that any of such information that is provided to the Company by third parties will not continue to be provided to the Company on the same terms and conditions as currently exist.

(e) Except as set forth on Schedule 2.11(e), the Company has not transferred ownership of, or granted any exclusive license with respect to, any Intellectual Property that is or was Company Intellectual Property to any third party.

(f) Except as set forth on Schedule 2.11(f), the operation of the business of Company as such Business currently is conducted, including Company's design, development, manufacture, marketing and sale of the products or services of the Company has not and does not, and with respect to products currently under development to the Company's knowledge will not, infringe or misappropriate the Intellectual Property of any third party or, to its knowledge, constitute unfair competition or trade practices under the laws of any jurisdiction.

(g) Except as set forth on Schedule 2.11(g), the Company has not received any notice or other claim from any third party that the operation of the Business of the Company or any act, product or service of the Company infringes, may infringe or misappropriates the Intellectual Property of any third party or constitutes unfair competition or trade practices under the laws of any jurisdiction.

(h) To the knowledge of the Company or the Stockholders, no person has infringed or is infringing or misappropriating any Company Intellectual Property or other Intellectual Property rights in any of its products, technology or services, or has or is violating the confidentiality of any of its proprietary information.

(i) The Company has taken reasonable steps to protect the Company's rights in the Company's proprietary and/or confidential information and trade secrets or any trade secrets or confidential information of third parties provided to the Company, and, without limiting the foregoing, the Company has enforced a policy requiring each employee and contractor to execute a proprietary information/confidentiality agreement substantially in the form provided to Parent, and all current and former employees and contractors of Company have executed such an agreement. To the knowledge of the Company and the Stockholders, all trade secrets and other confidential information of the Company are not part of the public domain nor, have they been misappropriated by any person having an obligation to maintain such trade secrets or other confidential information in confidence for the Company. To the knowledge of the Company and the Stockholders, no employee or consultant of the Company has used any trade secrets or other confidential information of any other person in the course of their work for the Company nor is the Company making unlawful use of any confidential information or trade secrets of any past or present employees of the Company.

Except as set forth on Schedule 2.11(i), all Intellectual Property rights purported to be owned by the Company which were developed, worked on or otherwise held by any employee, officer or consultant are owned free and clear by the Company by operation of law or have been validly assigned to the Company and such assignments have been provided to Parent and are valid binding agreements of the parties thereto, enforceable in accordance with their terms. All of the rights of the Company and the Stockholders, as the case may be, in any of the Company Intellectual Property which is used or is useful in the Company's Business, have been validly assigned, transferred and/or conveyed to the Buyer as part of the Purchased Assets hereunder and neither the Company and the Stockholders, as the case may be, has retained any rights with respect thereto. Except as set forth on Schedule 2.11 (i), neither the Company, the Stockholders, nor, to the knowledge of the Company and the Stockholders, any of the employees of the Company, have any agreements or arrangements with current or former employers relating to (i) confidential information or trade secrets of such employers, or (ii) the assignment of rights to any inventions, know-how or intellectual property of any kind nor are any such persons bound by any consulting agreements relating to confidential information or trade secrets of another entity that are being violated by such persons. The activities of the employees and consultants of the Company on behalf of the Company do not violate in any material respects any agreements or arrangements known to the Company, or any of the Stockholders which any such employees or consultants have with former employers or any other entity to whom such employees or consultants may have rendered consulting services.

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

2.12 Contracts. (a) Except as set forth on Schedules 2.12(a)-(d) hereto, the Company is not a party to, or subject to:

(i) any contract, arrangement or understanding, or series of related contracts, arrangements or understandings, which involves annual expenditures or receipts by the Company of more than $10,000;

(ii) any note, indenture, credit facility, mortgage, security agreement or other contract, arrangement or understanding relating to or evidencing indebtedness for money borrowed or a security interest or mortgage in the assets of the Company;

(iii) any guaranty issued by the Company;

(iv) any contract, arrangement or understanding relating to the acquisition, issuance or transfer of any securities, including, without limitation, convertible securities;

(v) any contract, arrangement or understanding relating to the acquisition, transfer, distribution, use, development, sharing or license of any technology or Company Intellectual Property, other than licenses granted in the ordinary course of business with a term of less than one (1) year;

(vi) any contract, arrangement or understanding granting to any person the right to use any property or property right of the Company other than licenses granted in the ordinary course of business with a term of less than one (1) year;

(vii) any contract, arrangement or understanding restricting the right of the Company to (A) engage in any business activity or compete with any business, or (B) develop or distribute any technology;

(viii) any contract, arrangement or understanding relating to the employment of, or the performance of services of, any employee, consultant or independent contractor and pursuant to which the Company is required to pay more than $10,000 per month;

(ix) any contract, arrangement or understanding with a Related Person; or

(x) any outstanding offer, commitment or obligation to enter into any contract or arrangement of the nature described in subsections (i) through (ix) of this subsection 2.12(a).

(b) The Company has previously provided to the Parent complete and correct copies (or, in the case of oral contracts, a complete and correct description) of any contract (and any amendments or supplements thereto) listed on Schedule 2.12(a) hereto. Except as set forth on Schedule 2.12(b) hereto, (i) each contract listed in Schedule 2.12(a) hereto is in full force and effect; (ii) neither the Company nor (to the knowledge of the Company and the Stockholders) any other party is in default under any contract listed in Schedule 2.12 (a) hereto, and no event

has occurred which constitutes, or with the lapse of time or the giving of notice or both would constitute, a default by the Company or (to the knowledge of the Company and the Stockholders) a default by any other party under such contract; and (iii) to the knowledge of the Company and the Stockholders, there are no disputes or disagreements between the Company and any other party with respect to any contract listed in Schedule 2.12 (a) hereto.

(c) Except as set forth on Schedule 2.12(c) hereto, the Company has not issued any warranty or any agreement or commitment to indemnify any person other than in the ordinary course of business.

(d) Except as set forth on Schedule 2.12(d) hereto, each of the contracts set forth on Schedules 2.12(a)-(d) hereto, is and always has been in compliance with all applicable laws, including any and all laws applicable to the Internet or the Company's Business, or any other law, statute, ordinance, code, rule, regulation, judgment, order, injunction, writ or decree of any federal, state, local or foreign court or governmental or regulatory body, agency or authority having, asserting or claiming jurisdiction over it or over any part of its Business, operations, properties or assets, except for any violation that would not have a Company Material Adverse Effect.

2.13 Employees; Employee Benefits.

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

(b) Except as set forth on Schedule 2.13(b) hereto, neither the Company nor any other entity which must be aggregated with the Company as required by Section 414(b),(c),(m) or (o) of the Code (an "ERISA Affiliate") maintains, contributes to, or has any liability or contingent liability for any defined benefit and defined contribution plan, stock ownership plan, employment or consulting agreement, executive compensation plan, bonus plan, incentive compensation plan or arrangement, deferred compensation agreement or arrangement, agreement with respect to temporary employees or "leased employees" (within the meaning of Section 414(n) of the Code), vacation pay, sickness, disability or death benefit plan (whether provided through insurance, on a funded or unfunded basis or otherwise), employee stock option, stock appreciation rights or stock purchase plan, severance pay plan, cafeteria plan, arrangement or practice, employee relations policy, practice or arrangement, or any other employee benefit plan, program or arrangement, including, without limitation, an "employee benefit plan" within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

2.14 Compliance with Applicable Law. The Company is not in violation in any respect of any applicable safety, health or environmental law, any law applicable to the internet or the Company's Business, or any other law, statute, ordinance, code, rule, regulation,

judgment, order, injunction, writ or decree of any federal, state, local or foreign court or governmental or regulatory body, agency or authority having, asserting or claiming jurisdiction over it or over any part of its Business, operations, properties or assets, except for any violation that would not have a Company Material Adverse Effect. The Company has not received any notice alleging any such violation, nor to the knowledge of the Company or the Stockholders, is there any inquiry, investigation or proceeding relating thereto.

2.15 Ability to Conduct Business. Except as set forth on Schedule 2.15 hereto, there is no agreement, arrangement or understanding, nor any judgment, order, writ, injunction or decree of any court or governmental or regulatory body, agency or authority applicable to the Company or to which the Company is a party or to the knowledge of the Company and the Stockholders, by which it or any of its properties or assets is bound, that will prevent the use by the Buyer, after the Closing Date, of the properties and assets owned by, the Business conducted by or the services rendered by the Company on the date hereof, in each case on substantially the same basis as the same are used, owned, conducted or rendered on the date hereof. The Company has in force, and is in compliance with, in all material respects, all governmental permits, licenses, exemptions, consents, authorizations and approvals used in or required for the conduct of its Business as presently conducted, all of which shall continue in full force and effect, without requirement of any filing or the giving of any notice and without modification thereof, following the consummation of the transactions contemplated hereby. The Company has not received any notice of, and to the knowledge of the Company or the Stockholders, there are no inquiries, proceedings or investigations relating to or which could result in the revocation or modification of any such permit, license, exemption, consent, authorization or approval.

2.16 Major Partners. Schedule 2.16 hereto sets forth a complete and correct list of the ten (10) largest partners of the Company in terms of revenue recognized in respect of such partners during the two (2) months ended February 28, 2005 and during the twelve (12) months ended December 31, 2004, showing the amount of revenue recognized for each such partner, as the case may be, during such period. To the knowledge of the Company and the Stockholders, except as set forth on Schedule 2.16 hereto, the Company has not received any notice or other communication (written or oral) from any of the partners listed in Schedule 2.16 hereto terminating, amending or reducing in any material respect, or setting forth an intention to terminate, amend or reduce in the future, or otherwise reflecting a material adverse change in, the business relationship between such partner and the Company.

2.17 Insurance. Schedule 2.17 hereto sets forth a true and complete list of all insurance policies carried by the Company with respect to its Business, together with, in respect of each such policy, the name of the insurer, the number of the policy, the annual policy premium payable therefor, the limits of coverage, the deductible amount (if any), the expiration date thereof and each pending claim thereunder. Except as set forth on Schedule 2.17 hereto, all such policies are in full force and effect and such policies, or other policies covering the same risks, have been in full force and effect, without gaps, continuously for the past two (2) years. All premiums due thereon have been paid in a timely manner. Complete and correct copies of all current insurance policies of the Company have been made available to Parent for inspection. The Company is not in default under any of such policies, and the Company has not failed to give any notice or to present any claim under any such policy in a due and timely fashion. The

Company does not have knowledge of any facts which would likely result in an insurer reducing coverage or increasing premiums on existing policies. There is no claim pending under any of such policies as to which coverage has been questioned, denied or disputed by the underwriters of such policy.

2.18 Brokers; Payments. No broker, investment banker, financial advisor or other person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company or the Stockholders. The Company has suspended or terminated, and has the legal right to terminate or suspend, all negotiations and discussions of Acquisition Transactions (as defined in Section 5.3) with parties other than Parent. No valid claim exists against the Company or, based on any action by the Company, against the Parent or Buyer for payment of any "topping," "break-up" or "bust-up" fee or any similar compensation or payment arrangement as a result of the transactions contemplated hereby.

2.19 Disclosure. The Company has not failed to disclose to Parent any fact that is reasonably more likely than not to have a Company Material Adverse Effect or impede or impair the ability of the Company to perform its obligations under this Agreement in any material respect. No representation or warranty by the Company or the Stockholders contained in this Agreement and no statement contained, when considered together as a whole, in any of the Company Disclosure Schedules, and the certificates and other documents or instruments delivered or to be delivered pursuant to this Agreement by or on behalf of the Company and/or the Stockholders contains or will contain any untrue statement of a material fact or omits or will omit to state any material fact necessary to make the statements contained therein, in light of the circumstances under which they are made, not misleading.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE STOCKHOLDERS

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

(i) Each of the Stockholders understands that the shares of Parent Common Stock to be issued to such Stockholder as part of the Purchase Price will not have been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities law by reason of specific exemptions under the provisions thereof which depend in part upon the other representations and warranties made by the Stockholders in this Agreement. Such Stockholder understands that the Parent is relying, in part, upon such Stockholder's representation and warranties contained in this Section 3.2 for the purpose of determining whether this transaction meets the requirements for such exemptions.

(ii) Each of the Stockholders has such knowledge, skill and experience in business, financial and investment matters so that such Stockholder 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 Stockholder has deemed it appropriate

to do so, such Stockholder has relied upon appropriate professional advice regarding the tax, legal and financial merits and consequences of an investment in Parent Common Stock pursuant to the transactions contemplated by this Agreement.

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

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

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

(vi) Except as provided in Article XII, each of the Stockholders 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.

(vii) The certificate(s) evidencing the shares of the Parent Common Stock to be issued pursuant to the transactions contemplated hereby shall bear the following legend:

> "The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, or any state securities laws and may not be sold or transferred in the absence of such registration or an exemption therefrom under the Securities Act of 1933, as amended, and applicable state securities laws."

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE PARENT AND BUYER

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

4.1 Corporate Organization. Parent and Buyer is a corporation duly organized and validly existing and in good standing under the laws of the State of Delaware. Parent and Buyer have all requisite corporate power and authority to own, operate and lease the properties and assets Parent and/or Buyer now owns, operates and leases and to carry on Parent's and/or Buyer's business as presently conducted. The Parent and Buyer are duly qualified to transact business as a foreign corporation and are each in good standing in the jurisdictions where such qualification is required by reason of the nature of the properties and assets currently owned, operated or leased by the Parent and/or Buyer or the business currently conducted by them, except for such jurisdictions where the failure to be so qualified would not have a Parent Material Adverse Effect (as defined below). The Parent and Buyer has previously made available to the Company complete and correct copies of its Certificate of Incorporation and all amendments thereto as of the date hereof (certified by the Secretary of State of Delaware as of a recent date) and its By-Laws (certified by the Secretary of the Parent and Buyer as of a recent date). Neither the Certificate of Incorporation nor the By-Laws of the Parent and/or Buyer have been amended since the respective dates of certification thereof, nor has any action been taken for the purpose of effecting any amendment of such instruments. The term "Parent Material Adverse Effect" means for purposes of this Agreement, any change, event or effect that is, or that is reasonably likely to be, materially adverse to the business, operation, assets, liabilities, financial condition or results of operations of the Parent and its subsidiaries (including Buyer), taken as a whole.

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

enforceable against them in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or in law).

4.3 Consents and Approvals; No Violations. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not: (i) violate or conflict with any provisions of the Certificate of Incorporation or By-Laws of the Parent and/or Buyer; (ii) breach, violate or constitute an event of default (or an event which with the lapse of time or the giving of notice or both would constitute an event of default) under, give rise to any right of termination, cancellation, modification or acceleration under, or require any consent or the giving of any notice under, any note, bond, indenture, mortgage, security agreement, lease, license, franchise, permit, agreement or other instrument or obligation to which the Parent and/or Buyer are parties, or by which any of them or any of their respective properties or assets may be bound, or result in the creation of any lien, claim or encumbrance of any kind whatsoever upon the properties or assets of the Parent and/or Buyer pursuant to the terms of any such instrument or obligation, other than any breach, violation, default, termination, cancellation, modification or acceleration which would not have a Parent Material Adverse Effect; (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 and/or Buyer or by which any of their respective properties or assets may be bound, except for such violations or conflicts which would not have a Parent Material Adverse Effect; or (iv) require, on the part of the Parent and/or Buyer, any filing or registration with, or permit, license, exemption, consent, authorization or approval of, or the giving of any notice to, any governmental or regulatory body, agency or authority other than any filing, registration, permit, license, exemption, consent, authorization, approval or notice which if not obtained or made would not have a Parent Material Adverse Effect.

4.4 SEC Reports and Financial Statements. The Parent has heretofore delivered or made available to the Company complete and correct copies of all reports and other filings filed by the Parent with the SEC pursuant to the Securities Act and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations thereunder (the "Acts") since and including the effective date of the Form SB-2 Registration Statement with respect to the Parent's initial public offering (such reports and other filings collectively referred to herein as the "SEC Filings"). The SEC Filings constitute all of the documents required to be filed by the Parent under the Securities Act and Exchange Act since such date. All documents that are required to be filed as exhibits to the SEC Filings have been so filed, and all contracts so filed as exhibits are in full force and effect, except those which are expired in accordance with their terms, and neither Parent nor any of its subsidiaries is in default thereunder. As of their respective dates, the SEC Filings did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited financial statements of the Parent included in the SEC Filings comply in all material respects with the published rules and regulations of the SEC with respect thereto, and such audited financial statements (i) were prepared from the books and records of the Parent, (ii) were prepared in

accordance with GAAP applied on a consistent basis (except as may be indicated therein or in the notes or schedules thereto) and (iii) present fairly the financial position of the Parent as at the dates thereof and the results of operations and cash flows for the periods then ended, subject to normal year-end adjustments and any other adjustments described therein or in the notes or schedules thereto. The unaudited financial statements included in the SEC Filings comply in all material respects with the published rules and regulations of the SEC with respect thereto and such unaudited financial statements (i) were prepared from the books and records of the Parent, (ii) were prepared in accordance with GAAP on a consistent basis (except as may be indicated therein or in the notes or schedules thereto) and (iii) present fairly the financial position of the Parent as at the dates thereof and the results of operations and cash flows for the periods then ended, subject to normal year-end adjustments and any other adjustments described therein or in the notes or schedules thereto. The foregoing representations and warranties in this Section 4.4 shall also be deemed to be made with respect to all filings made with the SEC on or before the Closing Date.

4.5 Brokers; Payments. No broker, investment banker, financial advisor or other person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Parent and/or Buyer.

4.6 Capitalization. (a) As of the date of this Agreement and immediately prior to the Closing of the transaction contemplated herein, the authorized capital stock of the Parent consists of 137,500,000 shares of common stock, $0.01 par value per share, of which 12,500,000 shares have been designated Class A common stock (the "Parent Class A Common Stock") and of which 11,987,500 shares are outstanding and of 125,000,000 shares have been designated Class B common stock, of which 23,161,886 shares are outstanding and 1,000,000 shares of preferred stock, $0.01 par value per share (the "Parent Preferred Stock"), of which 230,000 shares have been designated 4.75% convertible exchangeable preferred stock and of which all 230,000 shares are outstanding (the Parent Class A Common Stock, the Parent Common Stock and the Parent Preferred Stock collectively shall be referred to herein as the "Parent Capital Stock"). All of the issued and outstanding shares of Parent Capital Stock are duly authorized, validly issued, fully paid and nonassessable. Except for options issued under Parent's 2003 Amended and Restated Stock Incentive Plan and Parent's 2004 Employee Stock Purchase Plan (together, the "Parent Option Plans") and warrants to purchase an aggregate of 120,000 shares of Parent Common Stock issued in connection with Parent's initial public offering (together, the "Underwriters' Warrants"), there are no outstanding options, warrants or other rights to purchase, or securities convertible into or exchangeable for, shares of the capital stock of the Parent, and (except as contemplated by this Agreement and except with respect to options issued under the Parent Option Plans and the Underwriters' Warrants) there are no agreements or commitments to which the Parent is a party or by which it is bound pursuant to which the Parent is or may become obligated to issue additional shares of its capital stock.

4.7 Compliance with Applicable Law. Parent is not in violation in any respect of any applicable safety, health, environmental or other law, statute, ordinance, code, rule, regulation, judgment, order, injunction, writ or decree of any federal, state, local or foreign court or governmental or regulatory body, agency or authority having, asserting or claiming jurisdiction over it or over any part of its business, operations, properties or assets, except for any violation that would not have a Parent Material Adverse Effect.

4.8 Validity of Shares. Assuming the accuracy of the representations and warranties contained in Article III, the shares of Parent Common Stock to be issued in connection with this Agreement will, when issued in accordance with this Agreement, be duly authorized, validly issued, fully paid and nonassessable, will not be subject to any preemptive or other statutory right of stockholders, will be issued in compliance with applicable U.S. Federal and state securities laws and will be free of any liens or encumbrances, except for the Company's repurchase rights of the Restricted Equity Consideration pursuant to Section 6.9 below.

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

4.10 Disclosure. Parent has not failed to disclose to the Company any fact that is reasonably more likely than not to have a Parent Material Adverse Effect or impede or impair the ability of the Parent to perform its obligations under this Agreement in any material respect. No representation or warranty by Parent or Buyer contained in this Agreement and no statement contained, when considered together as a whole, in any of the Parent Disclosure Schedules, and the certificates and other documents or instruments delivered or to be delivered pursuant to this Agreement by or on behalf of the Parent and/or the Buyer contains or will contain any untrue statement of a material fact or omits or will omit to state any material fact necessary to make the statements contained therein, in light of the circumstances under which they are made, not misleading.

ARTICLE V

CONDUCT OF BUSINESS PRIOR TO THE CLOSING DATE

5.1 Conduct of Business of the Company. During the period commencing on the date hereof and continuing until the Closing Date, the Company and the Stockholders agree that the Company, except as otherwise expressly contemplated by this Agreement or agreed to in writing by the Parent:

(a) will carry on its Business only in the ordinary course and consistent with past practice;

(b) will not declare or pay any dividend on or make any other distribution (however characterized) in respect of shares of its capital stock without prior notice to the Parent;

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

(d) will not amend its Articles of Incorporation;

(e) will not issue, or agree to issue, any shares of its capital stock, or any options, warrants or other rights to acquire shares of its capital stock, or any securities convertible into or exchangeable for shares of its capital stock;

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

(g) will not form any subsidiaries;

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

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

(j) will not adopt or amend any Benefit Plan for the benefit of Employees, or increase the salary or other compensation (including, without limitation, bonuses or severance compensation) payable or to become payable to its Employees, beneficiaries or any other person or accelerate, amend or change the period of exercisability or the vesting schedule of options or restricted stock granted under any stock option plan or agreements or enter into any agreement to do any of the foregoing, except as specifically required by the terms of such plans or agreements;

(k) will not accelerate receivables or delay payables;

(l) will promptly advise the Parent of the commencement of, or threat of (to the extent that such threat comes to the knowledge of the Company or the Stockholders) any claim, action, suit, proceeding or investigation against, relating to or involving the Company or any of its respective officers, employees, agents or consultants in connection with their businesses or the transactions contemplated hereby;

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

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

(o) will not change the method of accounting of the Company, make any Tax elections, enter any settlement or compromise of any Tax claim or liability with any taxing authority, or amend any Tax Return that would adversely affect Parent or its subsidiaries without the consent of Parent;

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

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

(r) will not change, accelerate or alter, in each case, the payment terms of any existing contract or agreement nor enter into any contract or agreement with payment terms (including timing) not materially consistent with past practice; and

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

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

5.3 Other Negotiations. Neither the Company nor the Stockholders will (nor will they permit any of their respective officers, directors, managers, consultants, employees, agents, partners and affiliates on their behalf to) take any action to solicit, initiate, seek, encourage or support any inquiry, proposal or offer from, furnish any information to, or participate in any discussions or negotiations with, any corporation, partnership, person or other entity or group (other than Parent) regarding any acquisition of the Company any merger or consolidation with or involving the Company or any acquisition of any material portion of the stock or assets of the Company or any equity or debt financing of the Company or any material license of Intellectual Property rights or any business combination, recapitalization, joint venture or other major transaction involving the Business of the Company (any of the foregoing being referred to in this Agreement as an "Acquisition Transaction") or enter into an agreement concerning any Acquisition Transaction with any party other than Parent. If between the date of this Agreement and the termination of this Agreement pursuant to Article X, the Company receives from a third party any offer to negotiate or consummate an Acquisition Transaction, the Company shall (i) notify Parent immediately (orally and in writing) of such offer, including the identity of such party and the terms of any proposal therein, and (ii) notify such third party of the obligations of the Company under this Agreement.

ARTICLE VI

ADDITIONAL AGREEMENTS

6.1 Access to Properties and Records. The Company will provide (or will cause to be provided) to Parent and Parent's accountants, counsel and other authorized advisors, with reasonable access, during business hours, to its premises and properties and its books and records (including, without limitation, contracts, leases, insurance policies, litigation files, minute books, accounts, working papers and Tax Returns filed and in preparation) and will cause its officers to furnish to Parent and Parent's authorized advisors such additional financial, tax and operating data and other information pertaining to its business as Parent shall from time to time reasonably request. All of such data and information shall be kept confidential by Parent and the Company unless and until the transactions contemplated herein are consummated pursuant to the NDA Agreement (as hereinafter defined).

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

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

6.4 Fees and Expenses. The Parent and the Company shall bear and pay all of their own fees, costs and expenses relating to the transactions contemplated by this Agreement, including, without limitation, the fees and expenses of their respective counsel, accountants, brokers and financial advisors.

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

6.6 Tax Matters.

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

(b) Neither the Company nor the Stockholders shall revoke the election of the Company to be taxed as an S corporation within the meaning of Sections 1361 and 1362 of the Code on or prior to the Closing. The Company and the Stockholders shall not take or allow any action that would result in the termination of the Company's status as a validly electing S corporation within the meaning of Sections 1361 and 1362 of the Code on or prior to the Closing Date. Neither the Company nor the Stockholders shall take or allow any action that would result in the termination of the Company's subsidiaries' status taxed as a qualified subchapter S subsidiary within the meaning of Section 1361(b)(3)(B) of the Code on or prior to the Closing Date.

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

6.8 Restricted Stock Grants. With respect to the shares of Restricted Equity Consideration, such shares shall vest hereunder as follows: 16.67% on the six (6) month anniversary of the Closing Date and thereafter at a rate of an additional 16.67% on the last day of each successive six (6) month period over the next two and one half years. One hundred percent (100%) of the shares of Restricted Equity Consideration not already vested shall become immediately vested in the event of an Acceleration Event. While the shares of Restricted Equity Consideration are subject to vesting pursuant to this Section 6.8, the Stockholders will have all rights with respect thereto (including, without limitation, the right to vote the shares and the right to dividends paid on the shares, if any), except that the Stockholders shall not have the right to possession and sale thereof. For the purposes hereof, Acceleration Event shall be defined as (a) a Change of Control (as defined herein), (b) the termination of employment without cause (as defined in the respective employment agreement) of Edward Yim and Daniel Chappelle by the Company, or (c) the resignation of Edward Yim and Daniel Chappelle for Good Reason (as defined in the respective employment agreement). For the purposes hereof, "Change of Control"

shall mean (x) an event when any "person", as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), except for an existing stockholder of Parent as of the date hereof, is or becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Parent representing more than fifty percent (50%) of the voting power of the Parent's then outstanding securities, other than as a result of the purchase of equity securities directly from the Parent in connection with a financing transaction; (y) the consummation of a merger or consolidation of the Parent with or into another entity or any other corporate reorganization, if more than fifty percent (50%) of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Parent immediately prior to such merger, consolidation or other reorganization; or (z) the Parent sells, transfers or otherwise disposes of (in one transaction or a series of related transactions) all or substantially all of its respective assets or adopts any plan or proposal for its liquidation or dissolution. A Change of Control shall not occur if the person, surviving entity, or transferee is a wholly-owned (direct or indirect) subsidiary of Parent; provided, however, that an Acceleration Event shall occur upon a Change of Control of such wholly-owned subsidiary.

6.9 Repurchase Right

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

(b) Parent may exercise its right of repurchase of such shares of Restricted Equity Consideration held by such Stockholder by providing written notice to such Stockholder 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 Stockholder, by check or wire of immediately available funds, against delivery of the certificate or certificates representing the shares to be repurchased and duly endorsed stock powers.

6.10 Change of Name; Use of Name The Company will take all action necessary or appropriate to change its corporate name, effective immediately after the Closing, to a name that does not include the words "pikestreet.com" and will take such other actions within its power as may be necessary or appropriate to permit Buyer immediately after the Closing to use the Company's present corporate name and any other name substantially similar thereto. From and after the effective date of the change of the Company's corporate name, the Company and the

Stockholders shall not use the name "pikestreet.com" or any other name which includes such words or which is substantially similar thereto for any purpose except to refer to the business conducted by the Company prior to the Closing.

6.11 Financial Statements. The Company and the Stockholders shall (i) use their reasonable best efforts to cause the audit by the Company's independent auditor of the financial statements of the Company for the fiscal year ended December 31, 2003 and December 31, 2004 and for the first quarter of 2005 (and any additional periods that may be required by the SEC rules) (the "Audit") to have been completed to Parent's reasonable satisfaction within seventy five (75) days following the Closing Date at Parent's sole expense and (ii) deliver a customary management representation letter substantially in the form previously agreed to by the parties to the Company's independent auditor in connection with the completion of the Audit. The parties agree that the fees and expenses of financial consultants, if any, which are hired by either party to prepare the Company's financial statements on a basis in accordance with generally accepted accounting principles shall be paid in accordance with Section 6.4 hereof. The Company and the Stockholders agree as requested by Parent from time to time, after the Closing Date to assist Parent in obtaining the consent of the Company's independent auditor to include the auditor's report on the foregoing in any and all Parent SEC flings. In the event of a breach of this Section 6.11 by the Company and/or the Stockholders, Parent shall be entitled to disbursement to it of the entire amount of the Cash Escrow and the Equity Escrow.

ARTICLE VII

COVENANTS OF THE COMPANY

The Company and each of the Stockholders hereby agrees that for a period of three (3) years following the Closing Date, that he, she or it will not, directly or indirectly, alone or as a partner, officer, director, employee, consultant, agent, independent contractor or stockholder of any company or business organization, engage in any business activity, or have a financial interest in any business activity (excepting only the ownership of not more than 1% of the outstanding securities of any class of any entity listed on an exchange or regularly traded in the over-the-counter market), which is directly or indirectly in competition with the Company's Business (the "Competitive Activity"). The Company and each of the Stockholders agrees that, for a period of three (3) years following the Closing Date hereof, he, she or it will not in any capacity, either separately, jointly or in association with others, directly or indirectly, solicit or contact in connection with, or in furtherance of, a Competitive Activity any of the employees, consultants, agents, suppliers, customers or prospects of the Parent that were such with respect to the Parent at any time during the one (1) year immediately preceding the date hereof or that become such with respect to the Parent at any time during the one (1) year immediately following the date hereof. Such person's obligations under this Article VII shall survive termination of cessation of his, her or its employment or consultancy with the Company (if applicable).

ARTICLE VIII

CONDITIONS TO THE OBLIGATIONS OF
THE PARENT AND BUYER

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

8.1 Representations and Warranties True. The representations and warranties of the Company and the Stockholders which are contained in this Agreement, or contained in any Schedule, certificate or instrument delivered or to be delivered pursuant to this Agreement, shall be true and correct in all material respects at and as of the Closing Date as though such representations and warranties were made on and as of the Closing Date and at the Closing (i) the Company shall have delivered to the Parent and Buyer a certificate (signed on behalf of the Company by the President of the Company) to that effect with respect to all such representations and warranties made by the Company, and (ii) the Stockholders shall have executed and delivered to the Parent and Buyer a certificate to that effect with respect to all such representations and warranties made by the Stockholders.

8.2 Performance. The Company and the Stockholders shall have performed and complied in all material respects with all of the obligations under this Agreement which are required to be performed or complied with by them on or prior to the Closing Date, and at the Closing (i) the Company shall have delivered to the Parent and Buyer a certificate (duly executed on behalf of the Company by the President of the Company) to that effect with respect to all such obligations required to have been performed or complied with by the Company on or before the Closing Date, and (ii) the Stockholders shall have executed and delivered to the Parent and Buyer a certificate to that effect with respect to all such obligations required to have been performed or complied with by the Stockholders on or before the Closing Date.

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

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

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

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

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

(i) Executive Employment Agreements, in the form attached hereto as Exhibit C, executed by each of Edward Yim and Daniel Chappelle;

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

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

(iv) 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 Stockholders 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; and

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

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

8.9 Approval. Each of the Stockholders shall have executed and delivered to Parent a written consent or resolution in which such Stockholder voted all of the Stock owned by such Stockholder in favor of the transactions contemplated herein and the adoption of this Agreement.

8.10 Supporting Documents. The Company shall have delivered to the Parent a certificate (i) of the Secretary of State of the State of Washington dated within five (5) days of the Closing Date, certifying as to the corporate legal existence and good standing of the Company; and (ii) of the Secretary of the Company dated the Closing Date, certifying on behalf of the Company (w) that attached thereto is a true and complete copy of the 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 Stockholders of the Company, authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby; and (z) to the incumbency and specimen signature of each officer of the Company, executing on behalf of the company this Agreement and the other agreements related hereto; and (iii) satisfactory evidence that tax good standings, waivers of state tax liens and state tax clearance certificates from each such jurisdiction in which the Company does Business has been applied for, and in lieu of each such certificate, the Company will provide to the Parent written evidence as to the absence of any liens of any kind on the Purchased Assets, which will be certified by the Company's Treasurer.

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

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

ARTICLE IX

CONDITIONS TO THE OBLIGATIONS OF THE COMPANY AND THE STOCKHOLDERS

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

9.1 Representations and Warranties True. The representations and warranties of each of the Parent and Buyer contained in this Agreement, or contained in any Schedule, certificate or other instrument or document delivered or to be delivered pursuant to this Agreement, shall be true and correct in all material respects at and as of the Closing Date as though such representations and warranties were made on and as of the Closing Date and at the Closing each of the Parent and Buyer shall have delivered to the Company and the Stockholders a certificate (with respect to Parent, signed on its behalf by its Chief Executive Officer and with respect to Buyer, signed on its behalf by its President) to that effect with respect to all such representations and warranties made by such entity.

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

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

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

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

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

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

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

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

9.8 Supporting Documents.

(a) The Parent shall have delivered to the Company and the Stockholders (i) a certificate of the Secretary of State of the State of Delaware dated within five (5) days of the Closing Date, certifying as to the corporate legal existence and good standing of Parent and Buyer, (ii) a certificate of the Secretary of the Parent and Buyer, dated the Closing Date, certifying on behalf of the Parent and Buyer (w) that attached thereto is a true and complete copy of the Certificate of Incorporation of the Parent, as in effect on the date of such certification; (x)

that attached thereto is a true and complete copy of the By-Laws of Parent and Buyer as in effect on the date of such certification; (y) that attached thereto is a true and complete copy of all resolutions adopted by the Board of Directors of Parent and Buyer authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby; and (z) to the incumbency and specimen signature of each officer of the Parent executing on behalf of Parent and Buyer this Agreement and the other agreements related hereto.

ARTICLE X

TERMINATION

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

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

(b) by either the Company or the Parent:

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

(ii) if the Closing Date shall not have occurred on or before May 31, 2005, provided, however, that the right to terminate this Agreement pursuant to this Section 10.1(b)(ii) shall not be available to any party whose (or whose affiliate(s)') breach of any representation or warranty or failure to perform or comply with any obligation under this Agreement has been the cause of, or resulted in, the failure of the Closing Date to occur on or before such date; or

(iii) if there shall have been a material breach of any representation, warranty, covenant, condition or agreement on the part of the other party set forth in this Agreement which breach is incapable of cure, or if capable of cure, shall not have been cured within twenty (20) business days following receipt by the breaching party of notice of such breach.

10.2 Effect of Termination. In the event of termination of this Agreement, this Agreement shall forthwith become void and there shall be no liability on the part of any of the parties hereto or (in the case of the Company, the Parent and Buyer) their respective officers or directors, except for Sections 6.4 and 13.6, and the last sentence of Section 6.1, which shall remain in full force and effect, and except that nothing herein shall relieve any party from liability for a breach of this Agreement prior to the termination hereof.

ARTICLE XI

INDEMNIFICATION; SURVIVAL OF
REPRESENTATIONS AND WARRANTIES

11.1 Indemnity Obligations. (a) Subject to Sections 11.3 and 11.4 hereof, the Company and the Stockholders by adoption of this Agreement and approval of the transactions contemplated hereby, jointly and severally agree to indemnify and hold the Parent and Buyer (including their respective representatives and affiliates) harmless from, and to reimburse the Parent for, any Losses (as that term is hereinafter defined) directly or indirectly arising out of, based upon or resulting from (i) any inaccuracy in or breach of any representation or warranty of the Company and the Stockholders set forth in Article II of this Agreement or any Schedule or certificate delivered by the Company pursuant hereto; and (ii) any breach or nonfulfillment of, or any failure to perform, any of the covenants, agreements or undertakings of the Company which are contained in this Agreement or any agreement entered into in connection herewith including, without limitation, the covenants set forth in Article VII of this Agreement. For purposes of this Agreement, the term "Losses" shall mean any and all losses, damages, deficiencies, liabilities, obligations, actions, claims, suits, proceedings, demands, assessments, judgments, recoveries, fees, diminution in value, costs and expenses (including, without limitation, all out-of-pocket expenses, reasonable investigation expenses and reasonable fees and disbursements of accountants and counsel) of any nature whatsoever.

(b) Subject to Sections 11.3 and 11.4 hereof, the Company and the Stockholders by adoption of this Agreement and approval of the transactions contemplated hereby, the Company jointly and severally with respect to each of the Stockholders and the Stockholders severally and not jointly agree to indemnify and hold the Parent and Buyer (including their respective representatives and affiliates) harmless from, and to reimburse the Parent for, any Losses arising out of, based upon or resulting from (i) any inaccuracy in or breach of any representation or warranty of the respective Stockholder set forth in Article III of this Agreement, or any Schedule or certificate delivered by the respective Stockholder pursuant hereto or thereto; or (ii) any breach or nonfulfillment of, or any failure to perform, any of the covenants, agreements or undertakings of the respective Stockholder which are contained in this Agreement or any agreement entered into in connection herewith, including, without limitation, the covenants set forth in Article VII of this Agreement.

11.2 Notification of Claims.

(a) Subject to the provisions of Section 11.3 below, in the event of the occurrence of an event pursuant to which the Parent shall seek indemnity pursuant to Section 11.1, the Parent shall provide the Company and the Stockholders with prompt written notice (a "Claim Notice") of such event and shall otherwise promptly make available to the Company and the Stockholders, all relevant information which is material to the claim and which is in the possession of the indemnified party. Parent's failure to give a timely Claims Notice or to promptly furnish the Company and the Stockholders, with any relevant data and documents in connection with any Third-Party Claim (as that term is hereinafter defined) shall not constitute a defense (in part or in whole) to any claim for indemnification by such party, except and only to the extent that such failure shall result in any prejudice to the indemnified party.

(b) The Company and the Stockholders shall have the right to elect to join in, through counsel of its choosing reasonably acceptable to Parent, the defense, settlement, adjustment or compromise of any claim of any third party (a "Third Party Claim") for which indemnification will be sought by the Parent; provided, however, that Parent shall control such defense, settlement, adjustment or compromise. The expense of any such defense, settlement, adjustment or compromise, including Parent's counsel and any counsel chosen by the Company and the Stockholders shall be borne by the Company and the Stockholders (including from the Escrow Deposit). Parent shall have the right to settle any such Third Party Claim; provided, however, that Parent may not effect the settlement, adjustment or compromise of any such Third Party Claim without the written consent of the Company and the Stockholders, which consent shall not be unreasonably withheld.

11.3 Duration. All representations and warranties set forth in this Agreement and any Schedules or certificates delivered pursuant hereto or thereto, and all covenants, agreements and undertakings of the parties contained in or made pursuant to this Agreement and any Schedules or certificates delivered pursuant hereto or thereto, and the rights of the parties to seek indemnification with respect thereto (all of the foregoing collectively, the "Indemnifiable Matters"), shall survive the Closing but, except in respect of any claims for indemnification as to which a Claim Notice shall have been duly given prior to the Escrow Release Date (as defined below) and also as provided in the immediately following sentence, all Indemnifiable Matters shall expire on the one (1) year anniversary of the Closing Date (the "Escrow Release Date"). Notwithstanding the foregoing, (a) Indemnifiable Matters arising from breaches of the covenants contained in Article VII shall survive the Closing Date until the three (3) year anniversary of the Closing Date; (b) Indemnifiable Matters arising from breaches of the representations and warranties set forth in Section 2.9 and the covenant contained in Section 6.6 shall survive the Closing Date for the applicable statute of limitations period; (c) Indemnifiable Matters arising from breaches of the representations and warranties set forth in Sections 2.1, 2.2, 2.3, 2.4, 2.14 and Article III, shall each survive the Closing Date until the three (3) year anniversary of the Closing Date; and (d) Indemnifiable Matters arising from breaches of the representation and warranties set forth in Section 2.11 (except for domain and/or trademark infringement claims which shall not constitute Excluded Obligations) shall survive the Closing Date until the four (4) year anniversary of the Closing Date (all such obligations in (a), (b) (c) and (d), collectively, the "Excluded Obligations"). Notwithstanding the foregoing, claims relating to or arising from fraud shall be independent of, and shall not be limited by, the Agreement and shall survive the Closing Date indefinitely.

11.4 Escrow. The Escrow Deposit shall be held by the Escrow Agent for a period ending on the Escrow Release Date, except the Escrow Deposit may be withheld after the Escrow Release Date for so long as is reasonably necessary to satisfy claims for indemnification which are the subject to a Claims Notice delivered prior to the Escrow Release Date. The Escrow Deposit shall be held and disbursed by the Escrow Agent in accordance with an Escrow Agreement. If the Closing occurs, Parent and Buyer agree that the Parent's right to indemnification pursuant to this Article XI shall constitute Parent's and Buyer's sole and

exclusive remedy and recourse against the Company and the Stockholders for Losses attributable to any Indemnifiable Matters. Except with respect to the Excluded Obligations or as otherwise provided in Section 6.11, the maximum liability of the Company and the Stockholders collectively shall be limited to the Escrow Deposit and of any Stockholder shall be limited to such Stockholder's Pro Rata Portion (as defined below) of the Escrow Deposit and the maximum liability of the Company and the Stockholders collectively for the Excluded Obligations shall be limited to the Purchase Price (less any amount previously recovered under this Article XII from the Escrow Deposit) and of any Stockholder for the Excluded Obligations shall be limited to such Stockholder's Pro Rata Portion (as defined below) of the Losses up to the aggregate amount of the Purchase Price which such Stockholder is entitled (less any amount previously recovered under this Article XI from such Stockholder's Pro Rata portion of the Escrow Deposit). For purposes of this Agreement, a "Pro Rata Portion" of a Stockholder as to any Losses or as to the Escrow Deposit shall be equal to the percentage of the Purchase Price to which such Stockholder is entitled as set forth on Schedule 11.4. To the extent that all or any portion of the Equity Consideration or Restricted Equity Consideration is sold, disposed of or otherwise transferred by the Stockholders or any affiliate in an arms-length transaction, then with respect to and in lieu of the shares of Parent Common Stock so sold, Parent shall be entitled to recover against any and all cash or other proceeds so obtained. Any Losses payable pursuant to this Section 11.4 from the Escrow Deposit shall be paid from the Cash Escrow and the Stock Escrow in the same proportion as such Cash Escrow and Stock Escrow bears to the total Escrow Deposit. Notwithstanding anything to the contrary contained herein, neither the Company nor the Stockholders shall have any liability for indemnification pursuant to this Article XI until the aggregate Losses are in excess of $25,000, at which point the Company and the Stockholders shall be liable for the full amount of all Losses including such amount.

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

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

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

ARTICLE XII

REGISTRATION RIGHTS

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

12.2 Required Registration. Parent shall use best efforts to (i) promptly prepare and file with the SEC a registration statement on Form S-3 or alternatively a registration statement on a Form SB-2 (in the event Parent is not eligible to use a Form S-3) under the Securities Act with respect to the resale of the Registrable Shares (such Form S-3 or alternatively the Form SB-2 provided for above, the "Registration Statement") on or before June 5, 2005, and (ii) 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 Stockholders 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). Parent shall use best efforts to cause all Registrable Shares registered pursuant to the Registration Statement to be listed on the securities exchange on which Parent's Common Stock is then listed.

12.3 Effectiveness; Suspension Right.

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

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

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

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

12.5 Indemnification.

(a) To the extent permitted by law, Parent will indemnify and hold harmless the Stockholders, any underwriter (as defined in the Securities Act) for the Stockholders, its officers, directors, stockholders or partners and each person, if any, who controls the Stockholders 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 Stockholders, underwriter or controlling person, any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this Section 12.5(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the consent of Parent (which consent may not be unreasonably withheld); nor shall Parent be liable in any such case for any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon (i) a Violation which occurs in reliance upon and in conformity with written information furnished by such Stockholders expressly for use in the Registration Statement, or (ii) a Violation that would not have occurred if the Stockholders had delivered to the purchaser the version of the Prospectus most recently provided by Parent to the Stockholders as of a date prior to such sale.

(b) To the extent permitted by law, each Stockholder 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 Stockholder to comply with the prospectus delivery requirements under the Securities Act, and the failure of such Stockholder 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 Stockholder expressly for use in the Registration Statement or such Violation is caused by such Stockholder's failure to deliver to the purchaser of such Stockholder's Registrable Shares a prospectus (or amendment or supplement thereto) that had been made available to the Stockholders by Parent prior to the date of the sale; and such Stockholder will pay any legal or other expenses reasonably incurred by any person intended to be indemnified pursuant to this Section 12.5(b) in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this Section 12.5(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of such Stockholder, which consent shall not be unreasonably withheld. The aggregate indemnification and contribution liability of such Stockholder under this Section 12.5(b) shall not exceed the net proceeds received by such Stockholder in connection with sale of shares pursuant to the Registration Statement.

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

(d) To the extent that the indemnification provided for in this Section 12.5 is held by a court of competent jurisdiction to be unavailable to an Indemnified Party with respect to any loss, liability, claim, damage or expense referred to herein, then the Indemnifying Party, in lieu of indemnifying such Indemnified Party hereunder, shall contribute to the amount paid or payable by such Indemnified Party as a result of such loss, liability, claim, damage or expense in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one had and of the Indemnified Party on the other in connection with the statements or omissions which resulted in such loss, liability, claim, damage or expense, as well as any other relevant

equitable considerations. The relative fault of the Indemnifying Party and of the Indemnified Party shall be determined by reference to, among other things, whether the untrue of alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Indemnifying Party or by the Indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

12.6 Procedures for Sale of Shares Under Registration Statement.

(a) Notice and Approval. If a Stockholder shall propose to sell (which may include an intent to sell over a specific period of time) 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 Stockholder 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 Stockholder 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 Stockholder 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 Stockholder 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 Stockholder in a transaction that is not exempt under the Securities Act, such Stockholder, 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 Stockholders by Parent to the purchaser of any of the Registrable Shares on or before the settlement date for the purchase of such Registrable Shares.

(c) Copies of Prospectuses. Subject to the provisions of this Section 12.6, when a Stockholder 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 Stockholder 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 Stockholder include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statement therein not misleading or incomplete in the light of the circumstances then existing.

ARTICLE XIII

MISCELLANEOUS PROVISIONS

13.1 Amendment. This Agreement may be amended by the parties hereto at any time by execution of an instrument signed on behalf of the party against whom enforcement is sought.

13.2 Waiver of Compliance. Except as otherwise provided in this Agreement, any failure of any of the parties to comply with any obligation, covenant or agreement contained herein may be waived only by a written notice from the party or parties entitled to the benefits thereof. No failure by any party hereto to exercise, and no delay in exercising, any right hereunder, shall operate as a waiver thereof, nor shall any single or partial exercise of any right hereunder preclude any other or future exercise of that right by that party.

13.3 Notices. All notices and other communications hereunder shall be deemed given if given in writing and delivered personally, by registered or certified mail, return receipt requested, postage prepaid, or by overnight courier to the party to receive the same at its respective address set forth below (or at such other address as may from time to time be designated by such party to the others in accordance with this Section 13.3):

(a) if to the Company or the Stockholders to:

Pike Street Industries, Inc.
22605 SE 56th Street, Suite 250
Issaquah, WA 98029

with copies to:

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

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

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

with copies to:

Nixon Peabody LLP
100 Summer Street
Boston, MA 02110
Attention: Francis J. Feeney, Jr., Esq.

All such notices and communications hereunder shall be deemed given when received, as evidenced by the signed acknowledgment of receipt of the person to whom such notice or communication shall have been personally delivered, the acknowledgment of receipt returned to the sender by the applicable postal authorities or the confirmation of delivery rendered by the applicable overnight courier service.

13.4 Binding Effect; Assignment. This Agreement, and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Neither this Agreement nor any rights, duties or obligations hereunder shall be assigned by any party hereto without the prior written consent of the other parties hereto, except (i) by 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, and (ii) on or before Closing, Parent may assign its rights hereunder as Buyer to a wholly-owned subsidiary of Parent.

13.5 No Third Party Beneficiaries. Neither this Agreement or any provision hereof nor any Schedule, certificate or other instrument delivered pursuant hereto, nor any agreement to be entered into pursuant hereto or any provision hereof, is intended to create any right, claim or remedy in favor of any person or entity, other than the parties hereto and their respective successors and permitted assigns and any other parties indemnified under Article XI.

13.6 Public Announcements. Promptly after the date of execution hereof and the Closing Date, the Parent shall issue a press release in such form as reasonably acceptable to the Company and none of the parties hereto shall, except as agreed by the Parent and the Company, or except as may be required by law or applicable regulatory authority (including without limitation the rules applicable to Nasdaq National Market companies), issue any other reports, releases, announcements or other statements to the public relating to the transactions contemplated hereby.

13.7 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

13.8 Headings. The article and section headings contained in this Agreement are solely for convenience of reference, are not part of the agreement of the parties and shall not be used in construing this Agreement or in any way affect the meaning or interpretation of this Agreement.

13.9 Entire Agreement. This Agreement, and the Schedules, certificates and other instruments and documents delivered pursuant hereto, together with the other agreements referred to herein and to be entered into pursuant hereto, embody the entire agreement of the parties hereto in respect of, and there are no other agreements or understandings, written or oral, among the parties relating to the subject matter hereof, other than the nondisclosure agreement entered into between the Parent and the Company dated February 11, 2005, as amended (the "NDA Agreement"). This Agreement supercedes all other prior agreements and understandings, written or oral, between the parties with respect to such subject matter, other than the NDA Agreement (subject to the disclosure requirements of any applicable laws and/or governmental regulations).

13.10 Governing Law. The parties hereby agree that this Agreement, and the respective rights, duties and obligations of the parties hereunder, shall be governed by and construed in accordance with the General Corporation Law of the State of Delaware as to matters within the scope thereof and, as to all other matters, shall be governed by and construed with the laws of the State of Washington, without giving effect to principles of conflicts of law thereunder. Each of the parties hereby (i) irrevocably consents and agrees that any legal or equitable action or proceeding arising under or in connection with this Agreement shall be brought exclusively in the federal or state courts sitting in Seattle, Washington and any court to which an appeal may be taken in any such litigation, and (ii) by execution and delivery of this Agreement, irrevocably submits to and accepts, with respect to any such action or proceeding, for itself and in respect of its properties and assets, generally and unconditionally, the jurisdiction of the aforesaid courts, and irrevocably waives any and all rights such party may now or hereafter have to object to such jurisdiction.

13.11 Severability. In the event that any clause or portion of this Agreement shall be held to be invalid, illegal, unenforceable, or in violation of any law or public policy, such a finding shall not affect the balance of the terms contained herein, and the parties shall be charged with the responsibility of continuing to carry out the terms and conditions of this Agreement in a manner consistent therewith. Moreover, if one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to scope, activity or subject or otherwise unreasonable so as to be unenforceable at law, such provision or provisions shall be construed by the appropriate judicial body by limiting and reducing it or them, so as to be enforceable to the maximum extent compatible with the applicable law as it shall then appear.

13.12 Specific Performance. In addition to any and all other remedies that may be available at law in the event of any breach of this Agreement, the parties hereto shall be entitled to specific performance of the agreements and obligations hereunder and to such other injunctive or other equitable relief as may be granted by a court of competent jurisdiction, without the necessity of posting a bond or proving actual damages.

13.13 Waiver of Jury Trial. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY AND ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT, OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE ACTIONS OF ANY PARTY HERETO IN NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT HEREOF.

[Remainder of Page Intentionally Left Blank]

COUNTERPART SIGNATURE PAGE
TO ASSET PURCHASE AGREEMENT

IN WITNESS WHEREOF, the parties named below have caused this Agreement to be duly executed and delivered as an instrument under seal as of the date first above written.

PARENT AND BUYER:

MARCHEX, INC.

By: /s/ Russell C. Horowitz

Name: Russell C. Horowitz
Title: Chief Executive Officer

SELLER:

PIKE STREET INDUSTRIES, INC.

By: /s/ Edward Yim

Name: Edward Yim
Title: President

STOCKHOLDERS:

/s/ Edward Yim

Edward Yim

/s/ Daniel Chappelle

Daniel Chappelle

Exhibit 2.6

AGREEMENT AND PLAN OF MERGER
BY AND AMONG
MARCHEX, INC.
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
ERIK MATLICK, AS SHAREHOLDER REPRESENTATIVE
DATED July 27, 2005

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 Step One Certificate of Merger (Delaware)
A-2 Form of Step One Certificate of Merger (New York)
A-3 Form of Step Two Certificate of Merger (Delaware)
A-4 Form of Step Two Certificate of Merger (New York)
B Form of Letter of Transmittal
C Form of Escrow Agreement
D Form of Executive Employment Agreement
E Opinion of Cozen O'Connor, counsel to the Company
F Opinion of DLA Piper Rudnick Gray Cary US LLP, counsel to Parent, First Acquisition Corp. and Second Acquisition Corp.

SCHEDULES

1.2 Conversion of Shares
2.3 Exchange of Certificates
12.4 Escrow

DISCLOSURE SCHEDULES

3.1 Corporate Organization

3.4 Capitalization
3.5 Financial Statements; Business Information
3.7 Absence of Certain Changes or Events
3.8 Legal Proceedings, etc.
3.9 Taxes
3.10 Title to Properties and Related Matters
3.11 Intellectual Property; Proprietary Rights; Employee Restrictions
3.12 Contracts
3.13 Employees; Employee Benefits
3.16 Major Advertisers and Publishers/Partners
3.17 Accounts Receivable
3.18 Insurance
3.19 Bank Accounts; Powers of Attorney
3.21 Related Person Indebtedness and Contracts

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER (the "Agreement") dated as of July 27, 2005, by and among Marchex, Inc., a corporation organized under the laws of the State of Delaware (the "Parent"), Einstein Holdings I, Inc., a corporation organized under the laws of the State of Delaware and a wholly-owned direct subsidiary of the Parent (the "First Acquisition Corp."), Einstein Holdings 2, LLC, a limited liability company organized under the laws of the State of Delaware and a wholly-owned direct subsidiary of the Parent (the "Second Acquisition Corp."), IndustryBrains, Inc., a corporation organized under the laws of the State of New York (the "Company"), the undersigned holders of issued and outstanding capital stock of the Company (the "Primary Shareholders") and with respect to Articles II, VII and XII hereof, Erik Matlick (in such capacity, the "Shareholder Representative").

WHEREAS, the respective Boards of Directors of Parent, First Acquisition Corp. and the Company and the Manager of Second Acquisition Corp. have deemed it advisable and in the best interests of their respective shareholders and sole member, that Parent and the Company consummate the business combination and other transactions provided for herein;

WHEREAS, the respective Boards of Directors of Parent, First Acquisition Corp. and the Company and the Manager of Second Acquisition Corp. have unanimously approved, each in accordance with applicable law, this Agreement and the transactions contemplated hereby, including: (a) the merger of First Acquisition Corp. with and into the Company as a result of which the Company will be the surviving corporation and a wholly-owned direct subsidiary of Parent (the "Step One Merger") and (b) the immediately subsequent merger of the Company, as the surviving corporation of the Step One Merger, with and into Second Acquisition Corp. (the "Step Two Merger" and, together with the Step One Merger, the "Mergers") with Second Acquisition Corp. being the ultimate surviving entity in the Mergers, all upon the terms and subject to the conditions set forth in this Agreement, and, in furtherance thereof, have approved and declared the advisability of this Agreement and the Mergers; and

WHEREAS, the parties intend, by executing this Agreement, to adopt a plan of reorganization within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended (the "Code"). The Mergers together are intended to qualify as a single reorganization under the provisions of Section 368(a) of the Code.

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

MERGERS

1.1. Step One Merger.

(a) Constituent Corporations; Interim Surviving Corporation. The First Acquisition Corp. and the Company shall be the constituent corporations to the Step One

Merger. Subject to the terms and conditions of this Agreement, at the Effective Time, the First Acquisition Corp. shall be merged with and into the Company in accordance with the Delaware General Corporation Law ("DGCL") and the New York Business Corporation Law ("NYBC"), and the Company shall be the surviving corporation of the Step One Merger (the "Interim Surviving Corporation"). At the Effective Time, the identity and separate existence of the First Acquisition Corp. shall cease, and the Interim Surviving Corporation shall continue its corporate existence under the laws of the state of New York as a wholly-owned subsidiary of the Parent. Without limiting the generality of the foregoing, from and after the Effective Time, the Interim Surviving Corporation shall possess all of the rights, privileges, powers, franchises, properties and other interests of the Company and First Acquisition Corp. and all debts, liabilities and obligations of the Company and First Acquisition Corp. shall become the debts, liabilities and obligations of the Interim Surviving Corporation, all without further act or deed.

(b) Certificate of Incorporation and By-Laws of the Interim Surviving Corporation. From and after the Effective Time and thereafter until amended in accordance with NYBC and such Certificate of Incorporation or By-laws, as the case may be, (i) the Certificate of Incorporation of the Interim Surviving Corporation immediately prior to the Effective Time shall be the Certificate of Incorporation of the Interim Surviving Corporation, and (ii) the By-laws of the Interim Surviving Corporation immediately prior to the Effective Time shall be the By-laws of the Interim Surviving Corporation.

(c) Directors and Officers of the Interim Surviving Corporation. The directors and officers of the Interim Surviving Corporation immediately following the Step One Merger shall be the directors and officers of the First Acquisition Corp. immediately prior to the Step One Merger and all such directors and officers shall hold office until their respective successors are duly elected and qualified or appointed and qualified or until their earlier death, resignation or removal in accordance with the Certificate of Incorporation and By-laws of the Interim Surviving Corporation.

1.2. Conversion of Shares.

(a) Conversion of Shares. Each share of Common Stock (as defined in Section 2.1) 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 Article 9, Section 910 of the NYBC (the "Dissenting Shares") shall, by virtue of the Step One Merger and without any action on the part of the holder thereof, automatically be converted into (A) an amount in cash equal to the quotient obtained by dividing (x) the Cash Consideration (as defined in Section 2.1) by (y) the total number of Fully Diluted Shares (as herein defined) as of the Effective Time (as defined in Section 1.5), and (B) that number of shares of Parent Common Stock (as defined in Section 2.1) as shall be obtained by dividing (xx) the Equity Consideration (as defined in Section 2.1) by (yy) the total number of Fully Diluted Shares (as herein defined) 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 (as defined in Section 2.2), calculated on a fully diluted, fully converted basis as though all convertible debt and equity securities and options (whether vested or unvested) and warrants had been converted or exercised. Such portion of the Equity Consideration as shall be obtained by dividing $2,750,000 by the Closing Market Price (as

hereinafter defined) issuable to the Shareholders who are Employees (as hereinafter defined) of the Company (allocated among them pro rata based on their shares of Company stock owned immediately prior to the Closing) shall be subject to vesting pursuant to Section 7.9 (the "Restricted Equity Consideration"). Schedule 1.2 attached hereto sets forth, with respect to the Merger Consideration (as defined in Section 2.1), (i) the Exchange Ratio, (ii) the aggregate cash payment to be paid in connection with the Step One Merger to the Shareholders, and (iii) the aggregate Equity Consideration to be issued in connection with the Step One Merger to the Shareholders (including the aggregate Restricted Equity Consideration to be issued in connection with the Step One Merger to employee Shareholders). For the purposes hereof, "Shareholders" shall mean the holders of all of the issued and outstanding capital stock of the Company immediately prior to the Effective Time.

(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 Step One 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 Stock Option"), which will vest as of the Effective Time (including those options that vest as a result of the consummation of the Step One Merger), 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 Stock Option, the Company shall withhold the requisite amount for tax purposes provided in Section 1.7 hereof. Each outstanding Company Stock 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) First Acquisition Corp. Shares. Each share of First 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, no par value per share, of the Interim Surviving Corporation.

(e) 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 Article 9, Section 910 of the NYBC; provided, however, that Dissenting Shares held by a holder who shall, after the Effective Time of the Step One Merger, withdraw his demand for appraisal or lose his right of appraisal as provided in Article 9, Section 910 of the NYBC, shall be deemed to be converted, as of the Effective Time of the Step One 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 Article 9, Section 910 of the NYBC received by the Company, and (ii) the opportunity to direct all negotiations and proceedings with respect to demands for appraisal under Article 9, Section 910 of NYBC. 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.

1.3. Step Two Merger.

(a) Constituent Corporations; Surviving Corporation. The Interim Surviving Corporation and Second Acquisition Corp. shall be the constituent parties to the Step Two Merger. Subject to the terms and conditions of this Agreement, at the Step Two Merger Effective Time (as defined in Section 1.5), to occur immediately following the Effective Time on the Effective Date, the Interim Surviving Corporation shall be merged with and into Second Acquisition Corp. in accordance with the Delaware Limited Liability Company Act ("DLLCA") and NYBC, and Second Acquisition Corp. shall be the survivor of the Step Two Merger (the "Surviving Corporation"). At the Step Two Merger Effective Time, the identity and separate existence of the Interim Surviving Corporation shall cease, and the Surviving Corporation shall continue its existence as a limited liability company under the laws of the state of Delaware as a wholly-owned subsidiary of the Parent. Without limiting the generality of the foregoing, from and after the Step Two Merger Effective Time, the Surviving Corporation shall possess all of the rights, privileges, powers, franchises, properties and other interests of Second Acquisition Corp. and the Interim Surviving Corporation and all debts, liabilities and obligations of the Interim Surviving Corporation and Second Acquisition Corp. shall become the debts, liabilities and obligations of the Surviving Corporation, all without further act or deed.

(b) Certificate of Formation and Limited Liability Agreement of the Surviving Corporation. From and after the Step Two Merger Effective Time and thereafter until amended as provided by law, (i) the Certificate of Formation of the Surviving Corporation shall be the Certificate of Formation of Second Acquisition Corp. immediately prior to the Step Two Merger Effective Time and (ii) the Limited Liability Company Agreement of the Surviving Corporation shall be the Limited Liability Company Agreement of Second Acquisition Corp. immediately prior to the Step Two Merger Effective Time.

(c) Manager of the Surviving Corporation. The Manager of the Surviving Corporation immediately following the Step Two Merger shall be the Manager of Second Acquisition Corp. immediately prior to the Step Two Merger and shall hold office until his respective successor is duly elected and qualified or appointed and qualified or until his earlier death, resignation or removal in accordance with the Certificate of Formation and Limited Liability Company Agreement of the Surviving Company.

1.4. Conversion of the Shares. At the Step Two Merger Effective Time by virtue of the Step Two Merger and without any action on the part of the Interim Surviving Corporation, Parent, or Second Acquisition Corp.:

(a) Each membership interest of Second Acquisition Corp. issued and outstanding immediately prior to the Step Two Merger Effective Time shall be unchanged and shall remain issued and outstanding; and

(b) Each share of common stock of the Interim Surviving Corporation issued and outstanding immediately prior to the Step Two Merger Effective Time shall be cancelled without consideration and shall cease to be an issued and outstanding share of Interim Surviving Corporation common stock.

1.5. 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 Step One Merger to be consummated by filing an agreement or certificate of merger relating to the Step One Merger as contemplated by the DGCL and the NYBC in the forms of Exhibit A-1 and Exhibit A-2 attached hereto (the "Step One 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 State of New York, in such form as required by, and executed in accordance with the relevant provisions of, the DGCL and the NYBC (the time of such filing being the "Effective Time"). The "Step Two Merger Effective Time" shall mean the time of filing of the agreement or certificate of merger relating to the Step Two Merger as contemplated by the DLLCA and the NYBC in the forms of Exhibit A-3 and Exhibit A-4 attached hereto (the "Step Two Certificates of Merger" together with the Step One Certificates of Merger, 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 State of New York, in such form as required by, and executed in accordance with the relevant provisions of, the DGCL and/or DLLCA, as the case may be, and the NYBC.

1.6. 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 First Acquisition Corp. or the Company acquired or to be acquired by reason of, or as a result of, the Mergers, 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 First Acquisition Corp. or the Company, all such deeds, bills of sale, assignments and assurances and to do, in the name and on behalf of First 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.

1.7. Withholding. Parent, the Surviving Corporation or the Company shall be entitled to deduct and withhold from any Merger Consideration (as hereinafter defined) payable or otherwise deliverable pursuant to this Agreement and from any holder or former holder of Company Stock Options with respect to the exercise, cancellation, termination or other disposition of such Company Stock Options, including any Company Stock Options that have already been exercised, such amounts as Parent, the Surviving Corporation or the Company is 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

PAYMENT AND CLOSING

2.1. Total Merger Consideration. The consideration payable by virtue of the Step One Merger to the holders of shares of the Company's Common Stock, no par value per share (the "Common Stock") shall consist of (a) $15,522,500 (the "Cash Consideration"); and (b) that number of shares of Class B Common Stock, $0.01 par value per share, of the Parent (the "Parent Common Stock") as shall be obtained by dividing $15,000,000 by the Closing Market Price (as hereinafter defined) (the "Equity Consideration"). Such Cash Consideration and Equity Consideration which shall be issuable or payable at the Closing, as the case may be, as provided herein shall in the aggregate be referred to as the "Merger Consideration". For purposes of this Agreement, the term "Closing Market Price" shall mean the average of the last quoted sale price for shares of Parent Common Stock on The Nasdaq National Market for the thirty (30) trading days ending July 21, 2005.

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 First Acquisition Corp. shall execute and deliver an agreement or certificate of merger relating to the Step One Merger in accordance with DGCL and NYBC on or before the Closing Date, and shall cause such agreement or certificate of merger to be filed in accordance with DGCL and NYBC on the Closing Date. Immediately following the filing of the Step One Certificate of Merger, the Surviving Corporation shall cause to be filed an agreement or certificate of merger relating to the Step Two Merger in accordance with DLLCA and NYBC 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 ninety percent (90%) of the issued and outstanding shares of Company Common Stock shall be surrendered for cancellation and termination in the Step One Merger (accompanied, as to any certificates delivered at Closing by a Shareholder other than a Primary Shareholder, by the surrender of a duly completed and executed letter of transmittal in the form of Exhibit B attached hereto (each, a "Letter of Transmittal"). 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 (and, as to Shareholders other than the Primary Shareholders, to the extent Letters of Transmittal have been delivered at Closing) (or thereafter upon surrender of Certificates) (and if applicable, Letters of Transmittal): (i) the remaining Cash Consideration payable to the Primary Shareholders shall be wired to an account or accounts designated by the Primary Shareholders and the Cash Consideration payable to the Shareholders other than the Primary Shareholders shall be paid by overnight or hand delivery of a check representing immediately available funds to such Shareholders at their address set forth in their respective Letters of Transmittal, less $2,475,000 which shall be placed in escrow to satisfy the obligations pursuant to Article XII hereof (the "Cash Escrow"), and (ii) the Equity Consideration shall be distributed to the Shareholders (in accordance with the written instructions provided by the Primary Shareholders as to their Equity Consideration and in the Letters of Transmittal as to the Equity Consideration to be received by the Shareholders other than the Primary Shareholders) in the amount set forth on Schedule 2.3 (including the Restricted Equity Consideration to be distributed to Employee Shareholders), less that number of shares of Parent Common Stock issued as part of the Equity Consideration as shall be obtained by dividing $2,250,000 by the Closing Market Price which shall be placed in escrow to satisfy the obligations pursuant to Article XII hereof (the "Stock Escrow"). Until surrendered with an executed Letter of Transmittal, 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 shares of Parent Common Stock issuable upon conversion of such shares of Common Stock, but shall, subject to applicable appraisal rights under the NYBC, have no other rights. Subject to appraisal rights under the NYBC, 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 shares of Parent Common Stock into which such shares of Common Stock have been converted.

(b) If any cash is to be paid or any shares of Parent Common Stock are to be issued 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 or the issuance of such shares 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 or shares 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. No Fractional Securities. No fractional shares of Parent Common Stock shall be issuable by the Parent upon the conversion of shares of Common Stock in the Step One Merger pursuant to Section 1.2(a) hereof. In lieu of any such fractional shares, each holder of Common Stock who would otherwise have been entitled to receive a fraction of a share of Parent Common Stock shall be entitled to receive instead an amount in cash equal to such fraction multiplied by the Closing Market Price.

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 and number of shares issued 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. Escrow. At Closing, Parent will deposit in escrow on behalf of the Shareholders the Cash Escrow and as soon as practicable after the Closing and in any event within five (5) business days after the Closing, Parent will deposit in escrow on behalf of the Shareholders the Stock Escrow (the Stock Escrow, together with the Cash Escrow, the "Escrow Deposit"). The Escrow Deposit shall be held by and registered in the name of U.S. Bank National Association, as 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 C attached hereto.

2.8. RBC Fee. At Closing, Company and/or Parent shall pay to RBC Capital Markets ("RBC") an investment banking fee in the amount of $977,500 (the "RBC Fee") in accordance with instructions delivered to Company and/or Parent by RBC.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to the Parent, First Acquisition Corp. and Second 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 State of New York. The Company has all

requisite corporate power and authority to own, operate and lease the properties and assets it now owns, operates and leases and to carry on its business as presently conducted. The Company is duly qualified to transact business as a foreign corporation and is in good standing in the jurisdictions set forth in Schedule 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 (as defined below). The Company has previously delivered to the Parent complete and correct copies of the Certificate of Incorporation of the Company (certified by the secretary of state for the jurisdiction in which it was formed as of a recent date) and the By-Laws of the Company (certified by the Secretary of the Company as of a recent date). Neither the Company's Certificate of Incorporation nor its By-Laws 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. The term "Company Material Adverse Effect" means, for purposes of this Agreement, any change, event or effect that is, or that is reasonably likely to be, materially adverse to the business, operations, assets, liabilities, financial condition or results of operations of the Company, taken as a whole.

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/or DLLCA and the NYBC) 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 (a) 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 State of New York, 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 provision of the Certificate of Incorporation or By-Laws 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 or would impede or impair the ability of Company to perform its obligations under this Agreement in any material respect.

3.4. Capitalization.

(a) Immediately prior to the consummation of the transactions contemplated hereunder, the authorized capital stock of the Company consists of 1,400 shares of Common Stock, no par value per share (the "Stock") of which 1,228.49 shares of Stock are issued and outstanding (which such amounts include the shares issuable upon exercise of the Company Stock Options on the Closing Date). The beneficial and record ownership of all of the outstanding shares of Stock is set forth on Schedule 3.4(a) attached hereto. All outstanding shares of Stock (i) are duly authorized, validly issued, fully paid and nonassessable (ii) were not issued in violation of any pre-emptive rights or federal or state securities laws and (iii) are not subject to preemptive rights created by statute, the Certificate of Incorporation or By-Laws of the Company or any agreement or document to which the Company is a party or by which it is bound.

As of the date of this Agreement and after giving effect to the exercise any such Company Stock Options on or before the Closing, fifty (50) shares of Company Common Stock were reserved for issuance upon the exercise of options to purchase Company Common Stock granted pursuant to the Company's 2004 Stock Incentive Plan (the "Company Option Plan") under which options are outstanding for an aggregate of zero (o) shares and under which thirty-two (32) shares are available for grant. All shares of Company Common Stock subject to issuance as aforesaid, upon issuance on the terms and conditions specified in the instruments pursuant to which they are issuable, would be duly authorized, validly issued, fully paid and nonassessable.

Except as set forth above, as of the date of this Agreement no shares of Stock, other equity securities, partnership interests or similar ownership interests or other voting securities of the Company or any securities exchangeable or convertible into or exercisable for such capital stock, other equity securities, partnership interests or similar ownership interests or other voting securities of the Company, were issued, reserved for issuance or outstanding. There are no outstanding stock appreciation rights with respect to shares of Stock. There are no bonds, debentures, notes or other indebtedness of the Company having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which shareholders of the Company may vote. Except as set forth above, there are no securities, partnership interests or similar ownership interests, options, warrants, calls, rights (including preemptive rights) or commitments, understandings, arrangements, agreements or contracts (either written or oral) of any kind to which the Company is a party, or by which the Company is bound, obligating the Company to issue, deliver or sell, or cause to be issued, delivered or sold, any

shares of capital stock or other securities of the Company or obligating the Company to issue, grant, extend, accelerate the vesting of or enter into any such security, partnership interest or similar ownership interest, option, warrant, call, right, commitment, understanding, arrangement, agreement or contract (either written or oral).

The Company has never repurchased, redeemed or otherwise acquired or caused the repurchase, redemption or acquisition of any shares of capital stock or other securities of the Company, and there are no amounts owed or which may be owed to any person by the Company as a result of any repurchase, redemption or acquisition of any shares of Stock or other securities of the Company. There is no claim or basis for such a claim to any portion of the Merger Consideration except as provided in Section 2.2 or Schedule 2.2 hereto by any current or former shareholder, option holder or warrant holder of the Company, or any other person.

There are no registration rights and there are no voting trusts, proxies or agreements or understandings with respect to any equity security of any class of securities of the Company.

All outstanding options to purchase Company Common Stock were issued pursuant to the Company Option Plan. Schedule 3.4 hereto sets forth a true and complete list of the holders of outstanding Company Stock Options and lists for each outstanding Company Stock Option, as of the date of this Agreement, (i) the number of shares of Company Common Stock subject to such outstanding Company Stock Option, (ii) the exercise price of such option, (iii) the number of shares as to which such option will have vested, (iv) the vesting schedule for such option and whether the exercisability of such option will be accelerated in any way by the transactions contemplated by this Agreement or for any other reason, and (v) indicates the extent of acceleration, if any.

(b) Since its date of incorporation, the Company has not owned, directly or indirectly, any equity securities, or options, warrants or other rights to acquire equity securities, or securities convertible into or exchangeable for equity securities, of any other corporation, or any partnership interest in any general or limited partnership or unincorporated joint venture.

3.5. Financial Statements; Business Information.

(a) Attached hereto as Schedule 3.5(a) are (i) the audited balance sheets of the Company as of December 31, 2003 and December 31, 2004 and the audited 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, 2005 (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 (as hereinafter defined) 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 contain footnotes and are subject to normal year-end adjustments which adjustments 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 3.5(b) attached hereto sets forth certain statistics regarding the Company's business including, but not limited to, information related to the Company's products, services and websites such as (i) number of accepted or valid clicks for all partners for the months of April, May and June of 2005, (ii) average rate per valid clicks for the months of April, May and June of 2005, and (iii) the number of advertisers, search partners, content partners and private label partners for the months of April, May and June of 2005 (collectively, the "Data"). The Data provided by the Company is, and to the Company's knowledge, the Data provided to the Company by third parties is, true and correct in all material respects as of the dates stated in the schedule. To the extent the Company has provided compilations of Data, this representation shall only extend to the Data provided. 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 representations set forth in this Section 3.5 (b) as a whole are material to the Parent's decision to enter into the transactions contemplated by this Agreement and to pay the Merger Consideration.

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

(d) As of the Closing Date, the Company shall have no long-term indebtedness and a working capital balance at or in excess of $134,000. For the purposes of this Section 3.5(d), (i) any real property lease obligations set forth on Schedule 3.10(d) shall not be deemed long term indebtedness, (ii) the current obligations under any real property lease obligations shall be included as a liability for the purposes of determining the working capital balance, and (iii) the amount of the RBC Fee shall not be included as a liability for the purposes of determining the working capital balance.

3.6. Absence of Undisclosed Liabilities. The Company as of the Closing Date shall not have any liabilities or obligations of any nature, whether accrued, absolute, contingent or otherwise, of the type required to be reflected or disclosed on a balance sheet or the notes thereto as required according to GAAP that are not set forth on or reflected in the Financial Statements, except for those incurred in the ordinary course of business or as permitted by this Agreement since the date of the most recent balance sheet included within the Financial Statements and as reflected in the books and records of the Company which have been provided or made available to Parent.

3.7. Absence of Certain Changes or Events. Except as set forth on Schedule 3.7 hereto, since December 31, 2004, 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 3.7 or as set forth or reserved against in the Balance Sheet, since December 31, 2004, the Company has not: (i) incurred any material obligation or liability (whether absolute, accrued, contingent or otherwise) except in the ordinary course of business and consistent with past practice; (ii) experienced any Company Material Adverse Effect; (iii) made any change in accounting principle or practice or in its method of applying any such principle or practice, (iv) suffered any material damage, destruction or loss, whether or not covered by insurance, affecting its properties, assets or business; (v) mortgaged, pledged or subjected to any lien, charge or other encumbrance, or granted to third parties any rights in, any of its properties or assets, tangible or intangible; (vi) sold or transferred any of its assets, except in the ordinary course of and consistent with past practice, or canceled or compromised any debts or waived any claims or rights of a material nature; (vii) issued any additional Company securities, other equity securities, partnership interests or similar equity interests, or any rights, options or warrants to purchase, or securities convertible into or exchangeable for, Company securities; (viii) declared or paid any dividends on or made any distributions (however characterized) in respect of Company securities; (ix) repurchased or redeemed any Company securities; (x) terminated, amended or waived with respect to any material contract, any material right, except in the ordinary course of business and consistent with past practice; (xi) granted any general or specific increase in the compensation payable or to become payable to any of its Employees (as that term is hereinafter defined) or any bonus or service award or other like benefit, or instituted, increased, augmented or improved any Benefit Plan (as that term is hereinafter defined); or (xii) entered into any agreement to do any of the foregoing.

3.8. Legal Proceedings, etc. Except as set forth on Schedule 3.8, there are no suits, actions, claims, proceedings (including, without limitation, arbitral or administrative proceedings) or investigations pending or, to the knowledge of the Company, threatened against the Company or its properties, assets or business 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 to the knowledge of the Company, involving the properties, assets or business of the Company, which is unsatisfied or which requires continuing compliance therewith by the Company. Schedule 3.8 hereto sets forth all settlements, judgments, orders, injunctions, decrees and awards entered into or imposed which the Company is a party to or by which the Company is bound, and the Company is and has been at all times in material compliance with the terms of such settlements, judgments, orders, injunctions, decrees and awards. Schedule 3.8 hereto sets forth all suits, actions, claims, proceedings or investigations regarding any equity security of the Company which the Company or the Shareholders has ever been involved in or received notice of.

3.9. Taxes.

(a) The Company has properly and timely filed all Tax Returns (as hereinafter defined) and other filings in respect of Taxes (as hereinafter defined) required to be filed by it on

or prior to the date hereof, and has in a timely manner paid all Taxes which are (or will be) due for all periods ending on or before the date hereof, whether or not shown on such Tax Returns, except to the extent the Company has established adequate reserves in accordance with GAAP (excluding accruals and reserves for deferred Taxes established to reflect timing differences between book and Tax income) on the Balance Sheet for such Taxes and disclosed the dollar amount and the components of such reserves on Schedule 3.9(a) hereof. The Company will establish, in the ordinary course of business and consistent with its past practices, any reserves (other than reserves for deferred Taxes established to reflect timing differences between book and Tax income) necessary for the payment of all Taxes of the Company for the period from date of the Balance Sheet through the Closing Date, and the Company will disclose the dollar amount of such reserves to Parent on or prior to the Closing Date. Since the date of the Balance Sheet, the Company has not incurred any liability for Taxes arising from extraordinary gains or losses, as that term is used in GAAP, outside the ordinary course of business consistent with past custom and practice. All such Tax Returns have been accurately and completely prepared in all material respects in compliance with all laws, rules and regulations.

(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) For the purposes of the Agreement, "Tax" or "Taxes" means all federal, state and local, territorial and foreign taxes, levies, deficiencies or other assessments and other charges of whatever nature (including income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, backup withholding, social security, unemployment, disability, real property, personal property, sales, use, transfer, real property gains, registration, value added, alternative or add-on minimum, and estimated taxes and workers' compensation premiums and other governmental charges, and other obligations of the same nature as or of a nature similar to any of the foregoing) imposed by any taxing authority, as well as any obligation to contribute to the payment of Taxes determined on a consolidated, combined or unitary basis with respect to the Company or any affiliate, and including any transferee liability in respect of any tax (whether imposed by law, contractual agreement or otherwise) and any liability in respect of any tax as a result of being a member of any affiliated, consolidated, combined unitary or similar group including any liability pursuant to Treasury Regulation Section 1.1502-6, including any interest, penalty (civil or criminal), or addition thereto, whether disputed or not, as well as any expenses incurred in connection with the determination, settlement or litigation of any liability.

For purposes of this Agreement, the term “Tax Return” means any federal, state, local and foreign return, declaration, report, claim for refund, amended return, or information return or statement relating to Taxes, and any schedule or attachment thereto, filed or maintained, or required to be filed or maintained in connection with the calculation, determination, assessment or collection of any Tax, and including any amendment thereof, as well as, where permitted or required, combined or consolidated returns for any group of entities that include the Company or any affiliate; and reports with respect to backup withholding and other payments to third parties.

(d) At all times since January 1, 2004, 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.

(e) The Company is not and has not been a party to or bound by any tax indemnity agreement, tax sharing agreement, tax allocation agreement or similar agreement or arrangement and the Company does not have any liability for Taxes of any person (other than the Company) and any liability in respect of any tax as a result of being a member of any affiliated, consolidated, combined unitary or similar group under Treasury Regulation 1.1502-6 (or any similar provision of state, local or foreign law) or a transferee, successor or guarantor or by contract or indemnification.

(f) The Company has withheld or will withhold all amounts from its respective employees 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, including but not limited to, with respect to the exercise, cancellation or disposition of any Company Stock Option, 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.

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

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

(i) There are no accounting method changes or proposed or threatened accounting method changes of the Company, nor any other item, that could give rise to an adjustment under Section 481 of the Code for periods after the Closing Date, and the Company will not be required to make any such Section 481 adjustment as a result of the transaction contemplated by this Agreement.

(j) Each of the Shareholders of the Company is a U.S. resident for federal income tax purposes.

(k) The Company is not a party to any joint venture, partnership or other arrangement that is treated as a partnership for federal income tax purposes.

(l) No claim has ever been made by any authority in a jurisdiction where the Company does not file Tax Returns that it is or may be subject to taxation by that jurisdiction, and the Company neither does business in nor derives income from within or allocable to any state, local, territorial or foreign taxing jurisdiction other than those for which all Tax Returns have been furnished to the Parent.

(m) The Company has not received any written ruling of a taxing authority relating to Taxes or entered in any written and legally binding agreement with a taxing authority relating to Taxes, including any closing agreements under Section 7121 of the Code.

(n) The Company has not constituted either a "distributing corporation" or a "controlled corporation" in a distribution of stock qualifying for a tax-free treatment under Section 355 of the Code (i) in the two (2) years prior to the date of this Agreement or (ii) in a distribution which could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) in conjunction with the Merger.

(o) 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.

(p) The Company has not made any payments, is not obligated to make any payment, and is not a party to any agreement, contract, arrangement or plan that under any circumstances could obligate it to make any payment that will not be deductible under Section 280G of the Code, or that would be subject to an excise Tax under Section 4999 of the Code.

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

(r) The Company is not and has never been a passive foreign investment company within the meaning of Sections 1291 through 1297 of the Code. No foreign subsidiary of the Company owned directly or indirectly is, or at any time has been, a passive foreign investment company within the meaning of Sections 1291 through 1297 of the Code, neither the Company nor any of its subsidiaries is a shareholder, directly or indirectly, in a passive foreign investment company, no foreign subsidiary of the Company is a foreign personal holding company within the meaning of Section 552 of the Code, and no foreign subsidiary of the Company that is not a United States person (x) is, or at any time has been, engaged in the conduct of a trade or business within the United States or treated as or considered to be so engaged or (y) has, or at any time has had, an investment in "United States property" within the meaning of Section 956(c) of the Code; neither the Company nor any of its subsidiaries is, or at

any time has been, subject to (A) the dual consolidated loss provisions of the Section 1503(d) of the Code, (B) the overall foreign loss provisions of Section 904(f) of the Code or (iii) the re-characterization provisions of Section 952(c)(2) of the Code.

(s) 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 First Acquisition Corp. and/or Second Acquisition Corp. at the Closing), within the meaning of Treasury Regulation Section 1.905-2 for any foreign Tax that has been claimed as a foreign tax credit for United States federal income tax purposes.

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

(u) Schedule 3.9(u) 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.

(v) The Company has not taken (and will not take) any action or failed to take any action that would cause the Mergers to fail to qualify as a "reorganization" within the meaning of Section 368(a) of the Code.

(w) The Company has no net operating losses or other tax attributes presently subject to limitation under Section 382, 383 or 384 of the Code, or the Regulations under Section 1502 of the Code.

(x) The Shareholders have timely reported or will timely report their distributive share of the Company's income, gain, loss, deduction and other tax items on his, her or its Tax Returns and paid all taxes due with respect to all income, gain, loss, deduction and other tax items of the Company for periods ending on or before December 31, 2004 and will do so with respect to all income, gain, loss, deduction and other tax items of the Company for the period ending on the Closing Date.

(y) The Company is not and has never been required to make a basis reduction pursuant to Treasury Regulation Section 1.1502-20(b) or Treasury Regulation Section 1.337(d)-2(b).

3.10. 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, 2004, 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 3.11 and property leased by the Company and set forth on Schedule 3.10(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 except for the Company's leasehold interests in real property as set forth on Schedule 3.10(d).

(c) Schedule 3.10(c) hereto sets forth a list, which is correct and complete in all material respects, of all equipment, machinery, instruments, vehicles, furniture, fixtures and other items of personal property currently owned or leased by the Company with a book value as of December 31, 2004, in each case of $20,000 or more. Except as set forth on Schedule 3.10(c) hereto, all such personal property is in suitable operating condition (ordinary and reasonable wear and tear excepted) and is physically located in or about one of the places of business of the Company and is owned by the Company or is leased by the Company under one of the leases set forth in Schedule 3.10(d) hereto. None of such personal property is subject to any agreement or commitment for its use by any person other than the Company. The maintenance and operation of such personal property has been in conformance with all applicable material laws and regulations. There are no assets leased by the Company or used in the operation of the Company that are owned, directly or indirectly, by any Related Person. For the purposes hereof, "Related Person" shall mean any of the following (i) the Shareholders, officers or directors of the Company or any affiliates of any of them; (ii) the spouses and children of any of the Shareholders (collectively, "Near Relatives"); (iii) any trust for the benefit of any of the Shareholders or any of their respective Near Relatives; or (iv) any corporation, partnership, joint venture or other entity or enterprise owned or controlled by the Shareholders or by any of their respective Near Relatives.

(d) Schedule 3.10(d) sets forth a complete and correct list of all real property and personal property leases to which the Company is a party. The Company has previously delivered to the Parent complete and correct copies of each lease (and any amendments or supplements thereto) listed in Schedule 3.10(d) hereto. Except as set forth on Schedule 3.10(d) hereto, (i) each such lease is valid and binding, and in full force and effect; except to the extent that applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights may affect such validity or enforceability, (ii) neither the Company nor to the knowledge of the Company any other party is in default under any such lease, and no event has occurred which constitutes, or with the lapse of time or the giving of notice or both would constitute, a default by the Company or to the knowledge of the Company a default by any other party under such lease; (iii) to the knowledge of the Company, there are no disputes or disagreements between the Company and any other party with respect to any such lease; and (iv) except as set forth on Schedule 3.10(d), there is no requirement under any such lease that the Company either obtain the lessor's consent to, or notify the lessor of, the consummation of the transactions contemplated by this Agreement.

3.11. Intellectual Property; Proprietary Rights; Employee Restrictions. For the purposes of this Agreement, the following terms have the following definitions:

"Intellectual Property" shall mean any or all of the following and all rights in, arising out of, or associated therewith: (i) all United States, international and foreign patents and applications therefor and all reissues, divisions, renewals, extensions, provisionals, continuations and continuations-in-part thereof; (ii) all inventions (whether patentable or not), invention disclosures, improvements, trade secrets, proprietary information, know how, technology, technical data and customer lists, computer programs and other computer software, user interfaces, processes and formulae, source code, object code, algorithms, architecture, structure, display screens, layouts, development tools, instructions, templates and marketing materials, designs and all documentation relating to any of the foregoing; (iii) all copyrights, copyrights registrations and applications therefor, and all other rights corresponding thereto throughout the world; (iv) all industrial designs and any registrations and applications therefor throughout the world; (v) all trade names, logos, common law trademarks and service marks, trademark and service mark registrations, intent-to-use applications and other registrations and applications therefor throughout the world; (vi) all databases and data collections and all rights therein throughout the world; (vii) all domain names; (viii) all moral and economic rights of authors and inventors, however denominated, throughout the world, and (ix) any similar or equivalent rights to any of the foregoing anywhere in the world. Intellectual Property shall not include software that is generally available such as Microsoft Word and the like.

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

(a) Set forth on Schedule 3.11(a) hereto is a list of all Company Intellectual Property or other Intellectual Property required to operate the Company's business as currently conducted. True and correct copies of all licenses, assignments and releases relating to such Intellectual Property have been provided to Parent prior to the date hereof, all of which are valid and binding agreements of the Company and to the knowledge of the Company the other parties thereto, enforceable in accordance with their terms. Except as set forth on Schedule 3.11(a), the Company owns and has good and exclusive right, title and interest to, or (x) has exclusive license to, each item of Company Intellectual Property and (y) has non-exclusive license to other Intellectual Property required to operate the Company's business as currently conducted, free and clear of any lien or encumbrance; and all such Intellectual Property rights are in full force and effect. Except as set forth on Schedule 3.11(a), the Company is the exclusive owner of all trademarks and trade names used in connection with the operation of the Company's business as currently conducted, including the sale of any products or the provision of any services by Company. Except as set forth on Schedule 3.11(a), the Company owns exclusively, and has good title to, all copyrighted works that are Company products or which Company otherwise expressly purports to own. No university, government agency (whether federal or state) or other organization has sponsored research and development conducted by the Company or has any claim of right to or ownership of or other encumbrance upon the Intellectual Property rights of the Company.

(b) No Company Intellectual Property or product or service of the Company is subject to any proceeding or outstanding decree, order, judgment, contract, license, agreement, or stipulation restricting in any manner the use, transfer, or licensing thereof by Company or which may affect the validity, use or enforceability of such Company Intellectual Property.

(c) All patents, patent applications, trademarks, service marks, copyrights, mask work rights and domain names of the Company have been duly registered and/or filed with or issued by each appropriate governmental entity in the jurisdictions indicated on Schedule 3.11(c) hereto, all necessary affidavits of continuing use have been filed, and all necessary maintenance fees have been paid to continue all such rights in effect.

(d) To the extent that any Intellectual Property (including without limitation software, hardware, copyrightable works and the like) has been developed, created, modified or improved by a third party for the Company, 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 Company and to the knowledge of the Company the other parties thereto, enforceable in accordance with its terms. The Company has the right to use all trade secrets, data, customer lists, log files, hardware designs, programming processes, software and other information required for or incident to its products or business (including, without limitation, the operation of their respective Web sites) as presently conducted, is not in breach of any obligations with respect thereto and has received no notice that any of such software or other 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 3.11(e), the Company has not transferred ownership of, or granted any exclusive license with respect to, any Intellectual Property that is or was Company Intellectual Property to any third party.

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

(g) The Company has not received any notice or other claim from any third party that the operation of the business of the Company or any act, product or service of the Company infringes, may infringe or misappropriates the Intellectual Property of any third party or constitutes unfair competition or trade practices under the laws of any jurisdiction.

(h) To the knowledge of the Company, no person has infringed or is infringing or misappropriating any Company Intellectual Property or other Intellectual Property rights in any of its products, technology or services, or has or is violating the confidentiality of any of its proprietary information.

(i) The Company has taken reasonable steps to protect the Company's rights in the Company's proprietary and/or confidential information and trade secrets or any trade

secrets or confidential information of third parties provided to the Company, and, without limiting the foregoing, the Company has enforced a policy requiring each employee and contractor to execute a proprietary information/confidentiality agreement substantially in the form provided to Parent, and except as set forth on Schedule 3.11(i), 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 3.11(i), all Intellectual Property rights purported to be owned by the Company which were developed, worked on or otherwise held by any employee, officer or consultant are owned free and clear by the Company by operation of law or have been validly assigned to the Company and such assignments have been provided to Parent and are valid binding agreements of the Company and to the knowledge of the Company the other parties thereto, enforceable in accordance with their terms. All of the rights of the Company and the Shareholders, as the case may be, in any of the Company Intellectual Property which is used or is useful in the Company's business, have been validly assigned, transferred and/or conveyed to the First Acquisition Corp. and Second Acquisition Corp. as part of the transactions contemplated hereunder and neither the Company and the Shareholders, as the case may be, has retained any rights with respect thereto. Except as set forth on Schedule 3.11(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 to the Company's knowledge 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 of the Company (other than information provided by users, customers and advertisers) is accurate and complete in all material respects.

3.12. Contracts.

(a) Except as set forth on Schedules 3.12(a)-(d) hereto and for the Company's standard forms of agreements with (i) publishers/partners and (ii) advertisers (the "Standard Agreements"), 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 $20,000;

(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 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 3.12(a) hereto and the Standard Agreements. Except as set forth on Schedule 3.12(b) hereto and the Standard Agreements, (i) each contract listed in Schedule 3.12(a) hereto and the Standard Agreements 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 3.12(a) hereto and the Standard Agreements, 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 3.12(a) hereto and the Standard Agreements; 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 3.12(c) hereto, the Company has not issued any warranty or any agreement or commitment to indemnify any person other than in the ordinary course of business.

(d) Each of the contracts set forth on Schedules 3.12(a)-(d) hereto and the Standard Agreements, is and always has been in compliance with all applicable laws, including any and all laws applicable to the Internet or the Company's business, or any other law, statute, ordinance, code, rule, regulation, judgment, order, injunction, writ or decree of any federal, state, local or foreign court or governmental or regulatory body, agency or authority having, asserting or claiming jurisdiction over it or over any part of its business, operations, properties or assets, except for any violation that would not have a Company Material Adverse Effect.

(e) Complete and correct copies of the Company's standard forms of publisher/partner and advertiser agreements entered into by the Company with each of the publishers/partners and advertisers, respectively, are set forth on Schedule 3.12(a) hereto.

3.13. Employees; Employee Benefits.

(a) Schedule 3.13(a) hereto sets forth the names of all current employees of the Company (the "Employees") and such Employee's job title, the location of employment of such Employee, such Employee's current salary (including any amounts due but not yet paid to such Employee), the amount of any bonuses, commissions or other compensation (i) paid since December 31, 2004 to such Employee and (ii) potentially earned but not yet paid or potentially due to such Employee following the Closing, the date of employment of such Employee and the accrued vacation time of such Employee. Schedule 3.13(a) hereto sets forth a true and correct statement of the liability, if any, of the Company for accrued but unused sick pay. Any salary, commissions, quarterly bonuses, accrued sick pay, accrued vacation pay and any other amounts due to Employees by the Company for the period ending June 30, 2005 have been paid by the Company or are properly reflected as a liability of the Company in the Balance Sheet. There are no outstanding loans from the Company to any officer, director, employee, agent or consultant of the Company, or to any other Related Person. Schedule 3.13(a) hereto sets forth a complete and correct description of all severance policies of the Company. Complete and correct copies of all written agreements (or, in the case of oral agreements, a complete and correct description) with Employees and all employment policies, and all amendments and supplements thereto, have previously been delivered to the Parent, and a list of all such agreements and policies is set forth on Schedule 3.13(a). To the knowledge of the Company, no Employee has indicated a desire to terminate his or her employment, or has any intention to terminate 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. Since December 31, 2004, the Company has not (i) increased

the salary or other compensation payable or to become payable to or for the benefit of any of the Employees other than in the ordinary course of business, (ii) increased the term or tenure of employment for any Employee, except in the ordinary course of business, (iii) increased the amounts payable to any of the Employees upon the termination of any such person's employment or (iv) adopted, increased, augmented or improved benefits granted to or for the benefit of any of the Employees under any Benefit Plan.

(b) The Company has complied in all material respects with Title VII of the Civil Rights Act of 1964, as amended, the Age Discrimination in Employment Act, as amended, the Fair Labor Standards Act, as amended, the Immigration Reform and Control Act of 1986, the American with Disabilities Act, and all comparable state laws, and all applicable laws, rules and regulations governing payment of minimum wages and overtime rates, the withholding and payment of taxes from compensation, discriminatory practices with respect to employment and discharge, or otherwise relating to the conduct of employers with respect to Employees or potential employees, and there have been no claims made or, to the knowledge of the Company, threatened thereunder against the Company arising out of, relating to or alleging any violation of any of the foregoing. There are no material controversies, strikes, work stoppages, picketing or disputes pending or, to the knowledge of the Company, threatened between the Company and any of the Employees or former employees; no labor union or other collective bargaining unit represents or has ever represented any of the Employees, including any "leased employees" (within the meaning of Section 414(n) of the Code); no organizational effort by any labor union or other collective bargaining unit currently is under way or, to the knowledge of the Company, threatened with respect to any Employees; and the consent of no labor union or other collective bargaining unit is required to consummate the transactions contemplated by this Agreement.

(c) Schedule 3.13(c) hereto sets forth a list of each defined benefit and defined contribution plan, stock ownership plan, employment or consulting agreement, executive compensation plan, bonus plan, incentive compensation plan or arrangement, deferred compensation agreement or arrangement, agreement with respect to temporary employees or "leased employees" (within the meaning of Section 414(n) of the Code), vacation pay, sickness, disability or death benefit plan (whether provided through insurance, on a funded or unfunded basis or otherwise), employee stock option, stock appreciation rights or stock purchase plan, severance pay plan, cafeteria plan, arrangement or practice, employee relations policy, practice or arrangement, and each other employee benefit plan, program or arrangement, including, without limitation, each "employee benefit plan" within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), which has been maintained by the Company for the benefit of or relating to any of the Employees or to any former employees or their dependents, survivors or beneficiaries, whether or not legally binding, whether written or oral or whether express or implied, or for which the Company or any entity that would be deemed a "single employer" with the Company under Section 414(b), (c), (m) or (o) of the Code or Section 4001 of ERISA has any liability or contingent liability, all of which are hereinafter referred to as the "Benefit Plans."

(d) Each Benefit Plan which is an "employee pension benefit plan" (as defined in Section 3(2) of ERISA) or other form of retirement plan intended to meet the requirements of Section 401(a) of the Code meets such requirements; the trust, if any, forming part of such plan is exempt from U.S. federal income tax under Section 501(a) of the Code; a

favorable determination letter has been issued by the Internal Revenue Service (the "IRS") with respect to each plan and trust and each amendment thereto (except with respect to amendments to which the remedial amendment period for adopting such plan amendments has not yet expired); and nothing has occurred since the date of such determination letter that would adversely affect the qualification of such plan. Each Benefit Plan that is an "employee welfare benefit plan" (as defined in Section 3(1) of ERISA) either has timely filed all reports required under Section 104(a) of ERISA or was exempt from such annual reporting requirements. No Benefit Plan is a "voluntary employees beneficiary association" (within the meaning of section 501(c)(9) of the Code) and there have been no other "welfare benefit funds" (within the meaning of Section 419 of the Code) relating to Employees or former employees. No event or condition exists with respect to any Benefit Plan that could subject the Company to any material Tax under Section 4980B of the Code, or other applicable law. With respect to each Benefit Plan, the Company has each heretofore delivered to the Parent complete and correct copies of the following documents, where applicable and to the extent available: (i) the most recent annual report (Form 5500 series), together with schedules, as required, filed with the IRS, and any financial statements and opinion required by Section 103(a)(3) of ERISA, (ii) the most recent determination letter issued by the IRS, (iii) the most recent summary plan description and all modifications, as well as all other descriptions distributed to Employees or set forth in any manuals or other documents, (iv) the text of the Benefit Plan and of any trust, insurance or annuity contracts maintained in connection therewith and (v) the most recent actuarial report, if any, relating to the Benefit Plan. None of the Benefit Plans is subject to Title IV of ERISA or the minimum funding requirements of Section 412 of the Code; and none of the Benefit Plans of the Company is, or has been, the subject of any investigation, audit or action by the IRS, the Department of Labor or the Pension Benefit Guaranty Corporation as to which the Company has received written notice.

(e) No Benefit Plan provides benefits, including, without limitation, death, medical or severance benefits, with respect to current or former employees or directors (or their beneficiaries) beyond their retirement or other termination of service other than (i) coverage for benefits mandated by applicable law, (ii) deferred compensation benefits properly accrued as liabilities on the Financial Statements, or (iii) benefits the full cost of which is borne by the current or former employee or director or his beneficiaries.

(f) There is no agreement, plan or arrangement covering any employee or independent contractor or former employee or independent contractor of the Company that considered individually or considered collectively with any other such agreement, plan or arrangement, will, or could reasonably be expected to, give rise directly or indirectly to the payment of any amount as a result of the transactions contemplated by the Agreement that would not be deductible pursuant to Section 280G of the Code or that would be subject to an excise tax under Section 4999 of the Code.

3.14. Compliance with Applicable Law. The Company is not in violation in any respect of any applicable safety, health or environmental law, any law applicable to the internet or the Company's business, or any other law, statute, ordinance, code, rule, regulation, judgment, order, injunction, writ or decree of any federal, state, local or foreign court or governmental or regulatory body, agency or authority having, asserting or claiming jurisdiction over it or over any part of its business, operations, properties or assets, except for any violation that would not have

a Company Material Adverse Effect. The Company has not received any notice alleging any such violation, nor to the knowledge of the Company, is there any inquiry, investigation or proceeding relating thereto.

3.15. Ability to Conduct Business. There is no agreement binding upon the Company, nor any judgment, order, writ, injunction or decree of any court or governmental or regulatory body, agency or authority applicable to the Company or to which the Company is a party or by which it or any of its properties or assets is bound, that will prevent the use by the Surviving Corporation., 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 governmental permits, licenses, exemptions, consents, authorizations and approvals used in or required for the conduct of its business as presently conducted, all of which shall continue in full force and effect, without requirement of any filing or the giving of any notice and without modification thereof, following the consummation of the transactions contemplated hereby. The Company has not received any 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.

3.16. Major Advertisers and Publishers/Partners. Schedule 3.16 hereto sets forth a complete and correct list of the fifty (50) largest advertisers and publishers/partners of the Company in terms of revenue recognized in respect of such advertisers and publishers/partners during the twelve (12) months ended December 31, 2004 and the six (6) months ended June 30, 2005 and, showing the amount of revenue recognized for each such advertiser and publisher/partner, as the case may be, during such period. To the knowledge of the Company, except as set forth on Schedule 3.16 hereto, the Company has not received written notice from any of the advertisers or publishers/partners listed in Schedule 3.16 hereto terminating, amending or reducing in any material respect, or setting forth an intention to terminate, amend or reduce in the future, or otherwise reflecting a material adverse change in, the business relationship between such partner and the Company.

3.17. 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) except as set forth on Schedule 3.12(a)(ii) hereto, 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, 2005, are accurately and fairly reflected in the books and records of the Company. The reserves for bad debts reflected on the Balance Sheet were calculated in accordance with GAAP consistent with past practice and the Company reasonably believes such reserves are adequate. 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, and since June 30, 2005, there have not been any write-offs as uncollectible of any accounts receivable of the Company. Schedule 3.17 attached hereto sets forth a schedule of the Company's accounts receivable as of June 30, 2005.

3.18. Insurance. Schedule 3.18 hereto sets forth a true and complete list of all insurance policies carried by the Company with respect to its business, together with, in respect of each such policy, the name of the insurer, the number of the policy, the annual policy premium payable therefor, the limits of coverage, the deductible amount (if any), the expiration date thereof and each pending claim thereunder. Except as set forth on Schedule 3.18 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 not received written notice that an insurer intends to reduce coverage or increase premiums on existing policies (other than in the ordinary course or for renewals). 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.

3.19. Bank Accounts; Powers of Attorney. Schedule 3.19 hereto sets forth a complete and correct list showing:

(a) 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

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

3.20. Minute Books, etc. The minute books, stock records and other corporate records of the Company are complete and correct in all respects, and 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 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.

3.21. Related Person Indebtedness and Contracts. Schedule 3.21 hereto sets forth a complete and correct summary of all loans, guarantees, contracts, commitments, arrangements and understandings not described elsewhere in this Agreement between or involving the Company and any Related Persons. Except as set forth on Schedule 3.21 hereto, all amounts contributed by the Related Persons to the Company, as the case may be, have been treated as contributions to equity of the Company and have not been treated as, nor do they constitute, indebtedness of the Company to the Related Persons.

3.22. Brokers; Payments. Except for RBC with respect to the RBC Fee which shall be paid as provided in Section 2.8, no broker, investment banker, financial advisor or other person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company or the Shareholders. The Company has suspended or terminated, and has the legal right to terminate or suspend, all negotiations and discussions of

Acquisition Transactions (as defined in Section 6.3) with parties other than Parent. No valid claim exists against the Company or, based on any action by the Company, against the Surviving Corporation or the Parent 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.

3.23. State Takeover Statutes. The Board of Directors of the Company has (i) determined that the Merger is 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 their 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.

3.24. Disclosure. The Company has not failed to disclose to Parent any fact that is reasonably likely to have a Company Material Adverse Effect or impede or impair the ability of the Company to perform its obligations under this Agreement in any material respect. No representation or warranty by the Company or the Shareholders contained in this Agreement and no statement contained, when considered together as a whole, in any of the Company Disclosure Schedules, and the certificates and other documents or instruments delivered or to be delivered pursuant to this Agreement by or on behalf of the Company and/or the Shareholders 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.

3.25. Voting Requirements. The affirmative vote of two-thirds of the outstanding shares of Company Common Stock is necessary to adopt this Agreement (the "Shareholder Approval"). The record date established in accordance with the NYBC and the Certificate of Incorporation and the By-laws of the Company for purposes of determining the Shareholders entitled to vote with respect to the Shareholder Approval is the "Record Date." The Company has delivered to each Shareholder listed in Schedule 3.4(a) a copy of the Letter of Transmittal attached as Exhibit B attached hereto.

3.26. Information Supplied. None of the information supplied or to be supplied by the Company and the Shareholders specifically for and delivered or to be delivered in connection with the Shareholder Approval contained any untrue statement of a material fact or omitted to state any material fact as of the date such information was given to the Shareholders required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were or are made, taken as a whole, not misleading; provided, however, the foregoing shall not relate to any information with respect to Parent's SEC Filings (as hereinafter defined) as referenced in the Letters of Transmittal or any other information provided by Parent to the Company or Shareholders.

ARTICLE IV

REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE SHAREHOLDERS

4.1. Authorization; etc. Each of the Shareholders severally represents and warrants to the Parent, First Acquisition Corp. and Second 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 3.4 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 Mergers 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) Each such Shareholder has not taken (and will not take) any action or failed to take any action that would cause the Mergers to fail to qualify as a "reorganization" within the meaning of Section 368(a) of the Code.

(f) Effective upon the Closing, each such Shareholder voluntarily releases and discharges Parent, First Acquisition Corp. and Second Acquisition Corp., their respective affiliates, subsidiaries, predecessors, successors and assigns, and each of them, and the current and former officers, directors, stockholders, 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, First Acquisition Corp., Second 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, First Acquisition Corp. and Second Acquisition Corp. as follows:

(a) Each of the Shareholders understands that the shares of Parent Common Stock to be issued to such Shareholder in connection with the Step One Merger 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 XII, 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,
FIRST ACQUISITION CORP. AND SECOND ACQUISITION CORP.

The Parent, First Acquisition Corp. and Second Acquisition Corp. represent and warrant 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. Each of Parent, First Acquisition Corp. and Second Acquisition Corp. is a corporation and/or limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware. Each of Parent, First Acquisition Corp. and Second Acquisition Corp. 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. Each of the Parent, First Acquisition Corp. and Second Acquisition Corp. is duly qualified to transact business as a foreign corporation and/or a limited liability company 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 them, except for such jurisdictions where the failure to be so qualified would not have a Parent Material Adverse Effect (as defined below). Each of the Parent, First Acquisition Corp. and Second Acquisition Corp. has previously made available to the Company complete and correct copies of its Certificate of Incorporation and/or Certificate of Formation and all amendments thereto as of the date hereof (each such charter documents certified by the Secretary of State of Delaware as of a recent date) and its By-Laws and/or Limited Liability Company Operating Agreement (each such By-Laws and/or Limited Liability Company Operating Agreement certified by the Secretary of the Parent and First Acquisition Corp. and the Manager of Second Acquisition Corp. as of a recent date). Neither the Certificate of Incorporation or Certificate of Formation nor the By-Laws or Limited Liability Company Agreement of the Parent, First Acquisition Corp. or Second Acquisition Corp. 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. The term "Parent Material Adverse Effect" means for purposes of this Agreement, any change, event or effect that is, or that is reasonably likely to be, materially adverse to the business, operation, assets, liabilities, financial condition or results of operations of the Parent and its subsidiaries (including First Acquisition Corp. and Second Acquisition Corp.), taken as a whole.

5.2. Authorization. Each of Parent, First Acquisition Corp. and Second Acquisition Corp. 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 Boards of Directors of the Parent and First Acquisition Corp. and the Manager of Second Acquisition Corp. and by the Parent as the sole stockholder of First Acquisition Corp. and sole member of Second Acquisition Corp., and no other corporate proceedings on the part of the Parent, First Acquisition Corp. or Second Acquisition Corp. 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/or DLLCA and the NYBC) the consummation of the

transactions contemplated hereby. This Agreement has been duly executed and delivered by the Parent, First Acquisition Corp. and Second Acquisition Corp. and constitutes the valid and binding agreement of the Parent, First Acquisition Corp. and Second Acquisition Corp., 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/or DLLCA and NYBC, 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 Certificate of Formation, as the case may be, or By-Laws or Limited Liability Company Operating Agreement, as the case may be, of the Parent, First Acquisition Corp. or Second Acquisition Corp.; (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, First Acquisition Corp. and Second Acquisition Corp. are parties, or by which any of them or any of their respective properties or assets may be bound, or result in the creation of any lien, claim or encumbrance of any kind whatsoever upon the properties or assets of the Parent, First Acquisition Corp. and/or Second Acquisition Corp. 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, First Acquisition Corp. and/or Second Acquisition Corp. or by which any of their respective properties or assets may be bound, except for such violations or conflicts which would not have a Parent Material Adverse Effect; or (iv) require, on the part of the Parent, First Acquisition Corp. and/or Second Acquisition Corp., 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, First Acquisition Corp. or Second Acquisition Corp. 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. Legal Proceedings, etc. As of the date hereof, there is no action, suit, proceeding, claim or arbitration or, to Parent's knowledge, investigation pending, that would have a Parent Material Adverse Effect, nor, to the knowledge of the Parent, is there a threatened action, suit, proceeding, claim, arbitration or investigation against Parent or any of its subsidiaries that would have a Parent Material Adverse Effect or that in any manner challenges or seeks to prevent, enjoin, alter or delay any of the transactions contemplated by this Agreement.

5.6. Compliance with Applicable Law. Parent is not in violation in any respect of any applicable safety, health, environmental or any other law, statute, ordinance, code, rule, regulation, judgment, order, injunction, writ or decree of any federal, state, local or foreign court or governmental or regulatory body, agency or authority having, asserting or claiming jurisdiction over it or over any part of its business, operations, properties or assets, except for any violation that would not have a Parent Material Adverse Effect.

5.7. 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, First Acquisition Corp. and/or Second Acquisition Corp.

5.8. 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, First Acquisition Corp. or Second Acquisition Corp.

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, First Acquisition Corp. and/or Second Acquisition Corp. 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.

5.9. Validity of Shares. Assuming the accuracy of the representations and warranties contained in Article IV, the shares of Parent Common Stock to be issued in connection with the Merger will, when issued in accordance with this Agreement, be duly authorized, validly issued, fully paid and nonassessable, will not be subject to any preemptive or other statutory right of stockholders, will be issued in compliance with applicable U.S. Federal and state securities laws and will be free of any liens or encumbrances, except for the Company's repurchase rights of the Restricted Equity Consideration pursuant to Section 7.9 below.

5.10. Section 338 and 368 Code Matters. Parent shall not make an election under Section 338 of the Code (and any corresponding election under state, local, and foreign Tax law) with respect to the Step One Merger. Parent has not taken (and will not take or permit First Acquisition Corp., Second Acquisition Corp. or any related parties as defined in the applicable treasury regulations to take) any action or failed to take any action that would cause the Mergers to fail to qualify as a "reorganization" within the meaning of Section 368(a) of the Code.

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 that the Company, except as otherwise expressly contemplated by this Agreement or agreed to in writing by the Parent:

(a) will carry on its business only in the ordinary course and consistent with past practice;

(b) will not declare or pay any dividend on or make any other distribution (however characterized) in respect of shares of its capital stock;

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

(d) will not amend its Certificate of Incorporation;

(e) will not issue, or agree to issue, any shares of its capital stock, or any options, warrants or other rights to acquire shares of its capital stock, or any securities convertible into or exchangeable for shares of its capital stock, 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, keep available the services of its officers and key employees and preserve its relationships with clients and others having business dealings with it to the end that its goodwill and ongoing business shall not be materially impaired at the Effective Time;

(i) will not (i) make any capital expenditures individually or in the aggregate in excess of $20,000, (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 $20,000 annually, (v) incur or guarantee any additional indebtedness for borrowed money other than in the ordinary course, (vi) create or permit to become effective any security interest, mortgage, lien, charge or other encumbrance on any of its properties or assets, or (vii) enter into any agreement to do any of the foregoing;

(j) will not adopt or amend any Benefit Plan for the benefit of Employees, or increase the salary or other compensation (including, without limitation, bonuses or severance compensation) payable or to become payable to its Employees, beneficiaries or any other person or accelerate, amend or change the period of exercisability or the vesting schedule of options or restricted stock granted under any stock option plan or agreements or enter into any agreement to do any of the foregoing, except as specifically required or permitted 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 respective officers, employees, agents or consultants in connection with their businesses or the transactions contemplated hereby;

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

(n) will not enter into any agreement to dissolve, merge, consolidate or, sell any material assets of the Company (other than in the ordinary course) or acquire or agree to acquire (other than domain names in the ordinary course) by merging or consolidating with, or by purchasing a substantial equity interest in or substantial portion of the assets of, or by any other manner, any business or any corporation, partnership or other business organization or division, or otherwise acquire or agree to acquire any assets in excess of $20,000 in the aggregate; and

(o) will not change the method of accounting of the Company, make any Tax elections, enter any settlement or compromise of any Tax claim or liability with any taxing

authority, or amend any Tax Return that would adversely affect Parent or its subsidiaries without the consent of Parent;

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

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

(r) will not change, accelerate or alter, in each case, the payment terms of any existing contract or agreement nor enter into any contract or agreement with payment terms (including timing) not materially consistent with past practice; and

(s) will not sell any domain names or cause an affiliate partner to sell any domain names (or enter into any agreement to do any of the foregoing) or otherwise cease monetizing domain names with the Company without the Parent's consent which shall not be unreasonably withheld or delayed.

6.2. Conduct of Business of First Acquisition Corp. and Second Acquisition Corp. During the period commencing on the date hereof and continuing until the Effective Time, neither First Acquisition Corp. nor Second 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 Primary Shareholders will (nor will they permit any of their respective officers, directors, managers, consultants, employees, agents, partners and affiliates on their behalf to) take any action to solicit, initiate, seek, encourage or support any inquiry, proposal or offer from, furnish any information to, or participate in any discussions or negotiations with, any corporation, partnership, person or other entity or group (other than Parent) regarding any acquisition of the Company any merger or consolidation with or involving the Company or any acquisition of any material portion of the stock or assets of the Company or any equity or debt financing of the Company or any material license of Intellectual Property rights or any business combination, recapitalization, joint venture or other major transaction involving the business of the Company (any of the foregoing being referred to in this Agreement as an "Acquisition Transaction") or enter into an agreement concerning any Acquisition Transaction with any party other than Parent. If between the date of this Agreement and the termination of this Agreement pursuant to Article 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, insurance policies, litigation files, minute books, accounts, working papers and Tax Returns filed and in preparation) and will cause its officers to furnish to Parent and Parent's authorized advisors such additional financial, tax and operating data and other information pertaining to its business as Parent shall from time to time reasonably request. All of such data and information shall be kept confidential by Parent and the Company unless and until the Mergers are consummated pursuant to the Confidentiality Agreement (as hereinafter defined).

7.2. Transfer of Interests. Each of the Primary 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 Article 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 Mergers are consummated, then the Shareholders will be responsible for all such fees, costs and expenses incurred by the Company in connection with this Agreement and the transactions contemplated hereby which shall be paid by the Shareholders on a pro rata basis based on their percentage share of the Merger Consideration, except for the RBC Fee owed by the Company which shall be paid as provided in Section 2.8.

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) Preparation and Filing of Tax Returns. The Shareholder Representative shall prepare or cause to be prepared and file or cause to be filed all Tax Returns for the Company for all periods ending on or prior to the Closing Date and shall permit the Parent to review and comment on each such Tax Return at least fifteen (15) days prior to filing and shall in good faith consider all such comments. The filing version of each such Tax Return shall be subject to Parent's approval not to be unreasonably withheld or delayed. The Parent shall prepare or cause to be prepared and file or cause to be filed all Tax Returns for the Company (or Surviving Corporation) for all periods beginning before and ending after the Closing Date (each a "Straddle Period"), shall permit the Shareholder Representative to review and comment on each such Tax Return at least fifteen (15) days prior to filing and shall in good faith consider all such comments. The filing version of each such Tax Return shall be subject to the Shareholder Representative's approval not to be unreasonably withheld or delayed. Each such Tax Return shall be prepared in accordance with the Company's past practice in preparing its Tax Returns. The Parent shall not amend any Tax Return of the Company for any period (or portion thereof) ending on or prior to the Closing Date or any Straddle Period without the prior written approval of the Shareholder Representative if such amendment would give rise to an indemnification obligation pursuant to Article XII, such approval not to be unreasonably withheld or delayed.

(b) Cooperation on Tax Matters.

(i) Parent, the Company and the Shareholders shall cooperate fully, as and to the extent reasonably requested by the other party, in connection with the filing of Tax Returns pursuant to this Section 7.7 and any audit, litigation or other proceeding with respect to Taxes. Such cooperation shall include the retention and (upon the other party's request) the provision of records and information which are reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. The Company and the Shareholders and Parent (with respect to any Straddle Period Tax Returns) agree (A) to retain all books and records with respect to Tax matters pertinent to the Company relating to any Tax period beginning before the Closing Date until the expiration of the statute of limitations (and, to the extent notified by Parent or to the Shareholders, any extensions thereof) of the respective Tax periods, and to abide by all record retention agreements entered into with any taxing authority, and (B) to give the other party reasonable written notice prior to transferring, destroying or discarding any such books and records and, if the other party so requests, the Parent (with respect to any Straddle Period Tax Returns), Company or the Shareholders, as the case may be, shall allow the other party to take possession of such books and records.

(ii) Parent and the Shareholders further agree, upon request, to use their commercially reasonable best efforts to obtain any certificate or other document from any governmental authority or any other Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including, but not limited to, with respect to the transactions contemplated hereby).

(c) Certain Taxes. All Taxes, whether levied on the Company, any of the Company's subsidiaries, the Parent, First Acquisition Corp., Second Acquisition Corp. or any of their respective affiliates, resulting from the Mergers or otherwise on account of this Agreement or the transactions contemplated hereby, shall be paid by the Shareholders when due, and the Shareholders shall, at their own expense, file all necessary Tax Returns with respect to all such Taxes.

7.8. Tax Treatment. Parent, the Surviving Corporation, the Company and the Shareholders intend that the Mergers qualify as "tax-free" reorganization within the meaning of Section 368(a) of the Code and, for Tax reporting purposes, will report the Mergers as a tax-free reorganization.

7.9. Restricted Equity Consideration. With respect to the shares of Restricted Equity Consideration, such shares shall vest hereunder as follows: 33.34% on the ten (10) month anniversary of the Closing Date and thereafter at the rate of 33.33% on the last day of each successive ten (10) month period over the next twenty (20) month period. One hundred percent (100%) of the shares of Restricted Equity Consideration not already vested shall become immediately vested in the event of an Acceleration Event applicable to the respective Employee Shareholder. While the shares of Restricted Equity Consideration are subject to vesting pursuant to this Section 7.9, 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 the Employee Shareholders shall not have the right to possession and sale thereof. For the purposes hereof, Acceleration Event shall be defined as (a) a Change of Control (as defined herein), (b) the termination of employment of the Employee Shareholder without Cause or due to Disability (as defined in the respective employment agreement or side letter) or upon death, or (c) the resignation of the Employee Shareholder for Good Reason (as defined in the respective employment agreement or side letter). For the purposes hereof, "Change of Control" shall mean (x) an event when any "person", as such term is used in Sections 13(d) and 14(d) of the 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 an Acceleration Event shall occur upon a Change of Control of such wholly-owned subsidiary.

7.10. Repurchase Right.

(a) In the event that an Employee Shareholder's employment relationship, with Parent terminates, for any reason whatsoever, whether due to voluntary or involuntary action or otherwise, the Parent shall have the right to repurchase at the Repurchase Price (as defined herein) all or any portion of the shares of Restricted Equity Consideration that are not already vested (subject to any additional vesting due to an Acceleration Event pursuant to Section 7.9), which right may be exercised at any time and from time to time within ninety (90) days after the date of such termination or such longer period as may be determined in good faith by the Parent if such later repurchase is deemed necessary by the Parent for treatment of its stock as Qualified Small Business Stock under Section 1202 of the Code and regulations promulgated thereunder.

(b) Parent may exercise its right of repurchase of such shares of Restricted Equity Consideration held by 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.

7.11. Financial Statements. The Primary Shareholders shall assist and cooperate with the audit by the Parent's independent auditor of the Financial Statements and otherwise facilitate the completion of the audit to Parent's reasonable satisfaction within seventy five (75) days following the Closing Date.

7.12. Shareholder Consent. The Company and the Primary Shareholders shall use their respective best efforts to obtain the Shareholder Approval, whether by written consent or at a meeting duly called for the purpose thereof, in accordance with applicable law.

7.13. Appointment of Shareholder Representative.

(a) The Shareholder Representative is hereby appointed as representative of the Shareholders for purposes of this Agreement and the Escrow Agreement. Shareholder Approval of this Agreement shall include confirmation of the authority of the Shareholder Representative. Parent, First Acquisition Corp., Second Acquisition Corp. and the Company may rely upon the acts of the Shareholder Representative for all purposes permitted hereunder and under the Escrow Agreement.

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

discretion, and to execute all such documents as the Shareholder Representative shall deem necessary or appropriate, in connection therewith; and the power to receive service of process in connection with any claims under this Agreement.

(c) If the Shareholder Representative dies or otherwise becomes incapacitated and unable to serve as Shareholder Representative, his successor shall be appointed by a majority in interest of the Shareholders (such majority in interest to be determined in accordance with the pro rata amounts of the Merger Consideration as set forth on Schedule 12.4 hereto).

(d) The Shareholder Representative shall act for the Shareholders in the manner the Shareholder Representative believes to be in the best interest of the Shareholders and consistent with his obligations under this Agreement, but shall have no duties or obligations except as specifically set forth in this Agreement. In acting as representative of the Shareholders, the Shareholder Representative may rely upon, and shall be protected in acting or refraining from acting upon, an opinion or advice of counsel, certificate of auditors or other certificate, statement, instrument, opinion, report, notice, request, consent, order arbitrator's award, appraisal, bond or other paper or documents reasonably believed by him to be genuine and to have been signed or presented by the proper party or parties. The Shareholder Representative shall not be personally liable to the Shareholders for any action taken, suffered or omitted by him in good faith and reasonably believed by him to be authorized or within the discretion of the rights or powers conferred upon him by this Section 7.13. The Shareholder Representative may consult with counsel and any advice of such counsel shall be full and complete authorization and protection in respect to any action taken or suffered or omitted by him in such capacity in good faith and in accordance with such opinion of counsel. The Shareholder Representative may perform his duties as Shareholder Representative either directly or by or through his agents or attorneys, and the Shareholder Representative shall not be responsible to the Shareholders for any misconduct or negligence on the part of any agent or attorney appointed with due care by him under this Agreement. No bond shall be required of the Shareholder Representative, and the Shareholders jointly and severally shall indemnify the Shareholder Representative with respect to any and all decisions made or actions taken in the capacity as Shareholder Representative, other than for the Shareholder Representative's willful misconduct or gross negligence.

7.14. Final Working Capital. Within ninety (90) days following the Closing, Parent shall determine the amount of the Company's working capital at Closing (the "Final Working Capital"), and to the extent the Final Working Capital is less than $134,000, the Stockholders shall promptly pay to the Company the full amount of any deficit without regard to the last sentence of Section 12.4 hereof.

ARTICLE VIII

COVENANTS OF THE COMPANY AND THE PRINCIPAL SHAREHOLDERS

The Company and each of the Erik Matlick and Elke Wong (together, the "Principal Shareholders") hereby agrees that for a period of two (2) years following the Closing Date, that he, she or it 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 (excepting only the ownership of not more than 1% of the outstanding securities of any class of any entity listed on an exchange or regularly traded in the over-the-counter market), which is directly or indirectly in competition with the products or services contemplated or being developed, marketed, sold or otherwise provided by the Company, or which is directly or indirectly detrimental to the business of the Company as of the Closing Date ("Competitive Activity"). The Company and each of the Principal Shareholders agrees that, for a period of two (2) years following the Closing Date hereof, he, she or it will not in any capacity, either separately, jointly or in association with others, directly or indirectly, solicit or contact in connection with, or in furtherance of, a Competitive Activity any of the employees, consultants, agents, suppliers, customers or prospects of the 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, FIRST ACQUISITION CORP. AND SECOND ACQUISITION CORP.

The obligation of the Parent, First Acquisition Corp. and Second 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, First Acquisition Corp. and Second 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 (i) the Company shall have delivered to the Parent, First Acquisition Corp. and Second Acquisition Corp. a certificate (signed on behalf of the Company by the President of the Company) to that effect with respect to all such representations and warranties made by the Company, and (ii) the Primary Shareholders shall have executed and delivered to the Parent, First Acquisition Corp. and Second 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, First Acquisition Corp. and Second Acquisition Corp. a certificate (duly executed on behalf of the Company by the President of the Company) to that effect with respect to all such obligations required to have been performed or complied with by the Company on or before the Closing Date, and (ii) the Primary Shareholders

shall have executed and delivered to the Parent, First Acquisition Corp. and Second 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 Mergers and other transactions contemplated by this Agreement (including those identified on Schedule 3.3, if any) 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 C, executed by each of Erik Matlick and Elke Wong;

(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 Shareholder Representative and the Escrow Agent;

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

(f) Each of the holders of Restricted Equity Consideration will timely file valid elections under Section 83(b) of the Code as soon as practicable after the Closing and in any event within thirty (30) days of the Closing;

(g) Resignations of all officers and directors of the Company as of the Effective Time;

(h) The Letter of Transmittal in the form attached hereto as Exhibit B duly executed and delivered by the holders of at least 90% of the outstanding shares of Company Common Stock, which shall include the holders of Company Stock Options, which such Company Stock Options shall be accelerated and exercised in full in connection with the Closing (the "Letter of Transmittal"); provided, however, that this condition may be satisfied, in the alternative as to any such Shareholder by signing this Agreement; and

(i) The Company's standard form of non-disclosure and assignment of inventions agreement executed by Erik Matlick dated as of his date of hire by the Company.

9.6. Delivery of Certificates for Cancellation. The certificates representing at least 90% of the shares of Common Stock issued and outstanding immediately prior to the Effective Time, shall have been surrendered for cancellation.

9.7. Approval. The holders of at least two-thirds of the issued and outstanding shares of Company Common Stock shall have voted in favor of the approval of the Mergers, the adoption of this Agreement and the transactions contemplated hereby.

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

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

9.10. Opinion of Cozen O'Connor. The Company shall have delivered to Parent an opinion of Cozen O'Connor, counsel to the Company, in substantially the form attached hereto as Exhibit E.

9.11. Termination. The Company shall have terminated that certain Advisory Services Agreement with Alpine Meridian, Inc. dated as of February 4, 2002, as amended and such agreement shall be of no further force or effect.

9.12. Supporting Documents. The Company shall have delivered to the Parent a certificate (i) of the Secretary of State of the State of New York dated as of the Closing Date, certifying as to the corporate legal existence and good standing of the Company; and (ii) of the Secretary of the Company dated the Closing Date, certifying on behalf of the Company (w) that attached thereto is a true and complete copy of the Certificate of Incorporation of the Company, as in effect on the date of such certification; (x) that attached thereto is a true and complete copy of the By-Laws of such Company, as in effect on the date of such certification; (y) that attached thereto is a true and complete copy of all resolutions adopted by the Board of Directors and the Shareholders of the Company, authorizing the execution, delivery and performance of this Agreement and the consummation of the Mergers; 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.

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 each of the Parent, First Acquisition Corp. and Second Acquisition Corp. contained in this Agreement, or contained in any Schedule, certificate or other instrument or document delivered or to be delivered pursuant to this Agreement, shall be true and correct in all material respects at and as of the Closing Date as though such representations and warranties were made on and as of the Closing Date and at the Closing each of the Parent, First Acquisition Corp. and Second Acquisition Corp. shall have delivered to the Company and the Shareholders a certificate (with respect to Parent, signed on its behalf by its Chief Executive Officer and with respect to First Acquisition Corp. and Second Acquisition Corp. signed on its behalf by its President or Manager, as the case may be) to that effect with respect to all such representations and warranties made by such entity.

10.2. Performance. Each of the Parent, First Acquisition Corp. and Second 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 each of the Parent, First Acquisition Corp. and Second Acquisition Corp. shall have delivered to the Company and the Shareholders a certificate (with respect to Parent, signed on its behalf by its Chief Executive Officer and with respect to First Acquisition Corp. and Second Acquisition Corp., signed on its behalf by its President or Manager, as the case may be) 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, First Acquisition Corp. and/or Second 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. Certificates of Merger. The Company shall have executed and delivered to the Parent counterparts of the Certificates of Mergers to be filed with the Secretary of State of the State of Delaware and the Secretary of State of the State of New York in connection with the Merger.

10.5. Consents. All approvals, consents, licenses, permits, orders, waivers and authorizations required to be obtained by Parent, First Acquisition Corp. and/or Second Acquisition Corp. in connection with the Mergers and other 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.

10.6. 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.

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

(a) At the Closing, the Parent shall deliver and distribute the Merger Consideration in accordance with Section 2.3(a) and pay or cause the payment by the Company of the RBC Fee as provided in Section 2.8.

(b) At Closing, Parent shall deliver to the Escrow Agent (i) the Cash Escrow at Closing by wire, and (ii) the Stock Escrow as soon as practicable after the Closing and in any event within five (5) business days after the Closing.

10.8. Opinion of DLA Piper Rudnick Gray Cary US LLP. The Parent, First Acquisition Corp. and Second Acquisition Corp. shall have delivered to the Company and the Shareholders an opinion of DLA Piper Rudnick Gray Cary US LLP, counsel to the Parent, First Acquisition Corp. and Second Acquisition Corp., in substantially the form attached hereto as Exhibit F.

10.9. 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, (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 Mergers; 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) First 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 First Acquisition Corp., (ii) a certificate of the Secretary of First Acquisition Corp., dated the Closing Date, certifying on behalf of First Acquisition Corp. (x) that attached thereto is a true and complete copy of the By-Laws of such First 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 First Acquisition Corp. authorizing the execution, delivery and performance of this Agreement and the consummation of the Mergers; and (z) to the incumbency and specimen signature of each officer of First Acquisition Corp. executing on behalf of First Acquisition Corp. this Agreement and the other agreements related hereto.

(c) Second 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 Second Acquisition Corp., (ii) a certificate of the Manager of Second Acquisition Corp., dated the Closing Date, certifying on behalf of Second Acquisition Corp. (x) that attached thereto is a true and complete copy of the Limited Liability Company Operating Agreement of such Second 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 manager and sole member of such Second Acquisition Corp. authorizing the execution, delivery and performance of this Agreement and the consummation of the Mergers; and (z) to the incumbency and specimen signature of each officer of Second Acquisition Corp. executing on behalf of Second 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 August 15, 2005, provided, however, that the right to terminate this Agreement pursuant to this Section 11.1(b)(ii) shall not be available to any party whose (or whose affiliate (s)') breach of any representation or warranty or failure to perform or comply with any obligation under this

Agreement has been the cause of, or resulted in, the failure of the Effective Time to occur on or before such date; or

(iii) if there shall have been a material breach of any representation, warranty, covenant, condition or agreement on the part of the other party set forth in this Agreement which breach is incapable of cure, or if capable of cure, shall not have been cured within twenty (20) business days following receipt by the breaching party of notice of such breach.

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, First Acquisition Corp. and Second Acquisition Corp.) their respective officers or directors, except for Sections 7.5 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 (as defined herein) shall remain in full force and effect and shall survive any termination or expiration of the Agreement.

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, First Acquisition Corp. and Second Acquisition Corp. (including their respective representatives and affiliates) harmless from, and to reimburse the Parent for, any Losses (as that term is hereinafter defined) directly or indirectly arising out of, based upon or resulting from (i) any inaccuracy in or breach of any representation or warranty of the Company 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. For purposes of this Agreement, the term "Losses" shall mean any and all losses, damages, deficiencies, liabilities, obligations, actions, claims, suits, proceedings, demands, assessments, judgments, recoveries, fees, diminution in value, costs and expenses (including, without limitation, all out-of-pocket expenses, reasonable investigation expenses and reasonable fees and disbursements of accountants and counsel) of any nature whatsoever.

(b) Subject to Sections 12.3 and 12.4 hereof, each of the Shareholders by adoption of this Agreement and approval of the Merger hereby severally and not jointly agrees to indemnify and hold the Parent, First Acquisition Corp. and Second Acquisition Corp. (including their respective representatives and affiliates) harmless from, and to reimburse the Parent for, any Losses arising out of, based upon or resulting from (i) any inaccuracy in or breach of any

representation or warranty of such Shareholder set forth in Article IV of this Agreement or such Shareholder's Letter of Transmittal, or any Schedule or certificate delivered by such 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 and/or the Letter of Transmittal of such Shareholder or any agreement entered into in connection herewith, including, without limitation, with respect to the Principal Shareholders, 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 Shareholder Representative 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 Shareholder Representative 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 Shareholder Representative and, if applicable, such Shareholder, with any relevant data and documents in connection with any Third-Party Claim (as that term is hereinafter defined) shall not constitute a defense (in part or in whole) to any claim for indemnification by such party, except and only to the extent that such failure shall result in any prejudice to the indemnified party.

The Shareholder Representative 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 Shareholder Representative 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 (as defined below) 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 Shareholder Representative, or, if applicable, the Shareholder, which consent shall not be unreasonably withheld. In the event that the Shareholder Representative, 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.

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, the Letters of Transmittal and any Schedules or certificates delivered pursuant hereto or thereto, and the rights of the parties to seek indemnification with respect thereto (all of the foregoing collectively, the "Indemnifiable Matters"), shall survive the Closing but, except in respect of any claims for indemnification as to which a Claim Notice shall have been duly given prior to the Escrow Release Date (as defined below) and also as provided in the immediately following sentence, all Indemnifiable Matters shall expire on the one (1) year anniversary of the Closing Date (the "Escrow Release Date"). Notwithstanding the foregoing, (a) Indemnifiable Matters arising from breaches of the covenants contained in Article 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, 3.10, 3.14, Article IV and the Letters of Transmittal, 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 3.11 shall survive the Closing Date until the four (4) year anniversary of the Closing Date; and (d) Indemnifiable Matters arising from breaches of the representations and warranties set forth in Section 3.9 and the covenant contained in Section 7.7 shall each 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 and disbursed by the Escrow Agent in accordance with an Escrow Agreement. If the Closing occurs, Parent, First Acquisition Corp. and Second Acquisition Corp. agree that the Parent's, First Acquisition Corp.'s and Second Acquisition Corp.'s right to indemnification pursuant to this Article XII shall constitute Parent's, First Acquisition Corp.'s and Second Acquisition Corp.'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 liability of any Shareholder shall be limited to such Shareholder's Pro Rata Portion (as defined below) of the Escrow Deposit and the maximum liability of any Shareholder for the Excluded Obligations shall be limited to such Shareholder's Pro Rata Portion (as defined below) of the Losses up to the aggregate amount of the Merger Consideration which such Shareholder is entitled (less any amount previously recovered under this Article XII from such Shareholder's Pro Rata portion of the Escrow Deposit); provided, however, that no Shareholder shall have any liability for indemnification pursuant to Section 12.1(b) on account of any other Shareholder. For purposes of this Agreement, a "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 12.4. Notwithstanding anything to the contrary contained herein, the Shareholders shall have no liability for indemnification pursuant to this Article XII until the aggregate Losses are in excess of $100,000, at which point the Shareholders shall only be liable for the amount of Losses in excess of such amount.

12.5. 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, First Acquisition Corp. or Second Acquisition Corp. 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.

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

12.7. 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 Equity Consideration and Restricted Equity Consideration.

13.2. Required Registration. Parent shall use reasonable best efforts to promptly prepare and file with the SEC a registration statement on Form S-3 under the Securities Act with respect to the resale of the Registrable Shares (the "Registration Statement") no later than forty five (45) days following the Closing and shall use reasonable best efforts to effect all such registrations, qualifications and compliances (including, without limitation, obtaining appropriate qualifications under applicable state securities or "blue sky" laws and compliance with any other applicable governmental requirements or regulations) as the 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 to maintain the effectiveness of the Registration Statement and other applicable registrations, qualifications and compliances until one (1) year from the date such Registration Statement becomes effective plus the period of time, if any, that the Suspension Right (as hereinafter defined) is in effect (collectively, the "Registration Effective Period"), and from time to time will amend or supplement the Registration Statement and the prospectus contained therein as and to the extent necessary to comply with the Securities Act, the Exchange Act and any applicable state securities statute or regulation, subject to the following limitations and qualifications.

(b) Following such date as the Registration Statement is first declared effective, the 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 and provided further that with respect to the Restricted Equity Consideration, only Registrable Shares that shall have "vested" pursuant to Section 7.9 hereof may be offered and sold.

(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 and provided that Parent has similarly suspended open market offers and sales of securities of all similarly situated parties under any and all Registration Statements then in effect (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.

(d) The Parent agrees for a period of two (2) years from the Closing Date to:

(a) make and keep current public information about the Parent available, as those terms are understood and defined in Rule 144 under the Securities Act;

(b) use its commercially reasonable best efforts to file with the SEC in a timely manner all reports and other documents required of the Parent under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements); and

(c) furnish to any Shareholder upon request (i) a written statement by the Parent as to its compliance with the reporting requirements of Rule 144 and of the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), (ii) a copy of the most recent annual or quarterly report of the Parent, and (iii) such other reports and documents of the Parent as such Shareholder may reasonably request to avail itself of any similar rule or regulation of the SEC allowing it to sell any such securities without registration.

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 (which may include an intent to sell over a specific period of time) 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, the Shareholders or the Shareholder Representative, to:

IndustryBrains, Inc.
16-20 West 19th Street, 10th floor
New York, NY 10011
Attention: Erik Matlick, CEO and President

with copies to:

Cozen O'Connor
200 Four Falls Corporate Center, Suite 400
West Conshohocken, PA 19428
Attention: Steven N. Haas, Esq.

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

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

with copies to:

DLA Piper Rudnick Gray Cary US LLP
One International Place, 21st 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, any other parties indemnified under Article XI and as to the representations, warranties and covenants of the Parent, First Acquisition Corp. and Second Acquisition Corp. under this Agreement, the Shareholders of the Company.

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 confidentiality agreement entered into between the Parent and the Company dated as of January 2004, as amended on July 8, 2005 (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 internal substantive laws of the State of Delaware 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 Dover, Delaware 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. 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.

[Remainder of Page Intentionally Left Blank]

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

FIRST ACQUISITION CORP.:

EINSTEIN HOLDINGS I, INC.

By: /s/ Russell C. Horowitz
Name: Russell C. Horowitz
Title: President

SECOND ACQUISITION CORP.:

EINSTEIN HOLDINGS 2, LLC

By: /s/ Russell C. Horowitz
Name: Russell C. Horowitz
Title: Manager

COMPANY:

INDUSTRYBRAINS, INC.

By: /s/ Erik Matlick
Name: Erik Matlick
Title: Chief Executive Officer

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.

PRIMARY SHAREHOLDERS:

/s/ Erik Matlick
Erik Matlick

/s/ Elke Wong
Elke Wong

/s/ William Benedict, Jr.
William Benedict, Jr.

Elizabeth Benedict (UGMA)

/s/ William Benedict, Jr.
Name: William Benedict, Jr.
Title: Custodian

Louis Benedict (UGMA)

/s/ William Benedict, Jr.
Name: William Benedict, Jr.
Title: Custodian

William Benedict, III (UGMA)

/s/ William Benedict, Jr.
Name: William Benedict, Jr.
Title: Custodian

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.

SHAREHOLDER REPRESENTATIVE:

/s/ Erik Matlick
Name: Erik Matlick

Exhibit 10.6

OVERTURE LICENSE AGREEMENT

This License Agreement is effective by and between Overture Services, Inc. ("Overture") and Marchex, Inc. ("Licensee") on the date on which Licensee completes its acquisition of the domains currently owned by Name Development Ltd. ("Effective Date").

WITNESSETH

WHEREAS, Overture, as a result of its research and development and pursuant to assignment, is the owner of all right, title and interest in and to certain inventions relating to improvements in search engine methods and apparatus for use with computer networks such as the Internet; and

WHEREAS, Overture and Licensee desire to enter into this Agreement pursuant to which Overture will license to Licensee, and Licensee will license from Overture, certain patents subject to the terms and conditions hereof;

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

ARTICLE I
DEFINITIONS

As used in this Agreement, the following terms shall be defined as set forth:

"Change in Control" means (a) a merger, consolidation or other reorganization to which Licensee is a party, if the individuals and entities who were stockholders (or partners or members or others that hold an ownership interest) of Licensee immediately prior to the effective date of the transaction have "beneficial ownership" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of less than fifty percent (50%) of the total combined voting power for election of directors (or their equivalent) of the surviving entity following the effective date of the transaction, (b) acquisition by any entity or group of direct or indirect beneficial ownership in the aggregate of then issued and outstanding securities (or other ownership interests) of Licensee in a single transaction or a series of transactions representing in the aggregate forty percent (40%) or more of the total combined voting power of Licensee, or (c) a sale of all or substantially all of Licensee's assets.

"Earned Royalties" means royalties paid or payable by Licensee to Overture pursuant to Section 4.2 below.

"Gross Revenue" means amounts earned by Licensee resulting from revenue *** attributable to the use, performance or other exploitation of the Licensed Patents, to the extent applicable, after deducting any taxes that Licensee may be required to collect, and deducting any international sales, goods and services, VAT or similar taxes which Licensee is required to pay, if any, excluding deductions for taxes on Licensee's net income. ***

[***] Represents material which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

In cases in which Licensee operates the Licensee System to provide search results for partners or affiliates, the total revenue earned before any revenue sharing with such partners or affiliates shall be included in Gross Revenue.

"License" means the license granted pursuant to Section 2.1.

"Licensed Patents" means U.S. Patent Nos. 6,269,361 ("the '361 patent"), *** for the '361, *** patents (or respective foreign counterpart patents).

"Licensee System" means the "Paid Listing" systems, technologies, methodologies, services, and products, as currently available at Licensee's website, www.enhance.com and www.goclick.com as the same have been made available prior to the Effective Date or are made available from time to time during the Term, by Licensee and its wholly-owned subsidiaries.

"Quarter" means the three-month periods ending March 31, June 30, September 30 and December 31 of each Royalty Year.

"Royalty Year" means each Royalty Year (or remainder thereof) during the term of this Agreement.

ARTICLE II
GRANT OF LICENSE; ACKNOWLEDGEMENTS; RELEASE

2.1 Subject to the terms and conditions of this Agreement, Overture hereby grants to Licensee and its subsidiaries a worldwide non-exclusive, non-transferable, non-assignable, and non-sublicensable limited license under the Licensed Patents to allow Licensee to use the Licensed Patents, to the extent applicable, in connection with Licensee's operation of the Licensee System. Any entities or businesses acquired by Licensee after the Effective Date shall be included hereunder only as of such date of acquisition, and this Agreement shall not apply to release any such after-acquired businesses or entities from potential claims based upon or arising out of the Licensed Patents before such date of acquisition. No other license, express or implied, is granted to Licensee under any other patent, patent application, or other proprietary right of Overture.

2.2 Licensee's acceptance of this grant of license is not an admission of use, performance or exploitation of the Licensed Patents in connection with the businesses of Licensee and its wholly-owned subsidiaries prior to the Effective Date, nor an obligation to use, perform or otherwise exploit the Licensed Patents in connection with its Licensee System or other businesses during the Term hereof. Licensee shall not be restricted in any manner from licensing, developing or otherwise acquiring intellectual property that may substitute or be used in conjunction with the Licensed Patents to the extent applicable.

[***] Represents material which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

2.3 Except as to executory performances required under this Agreement, Overture hereby unconditionally assigns, releases and absolutely and forever discharges Licensee and its wholly-owned subsidiaries at the date of this Agreement, and each of their past, present, and future officers, directors, employees, agents and representatives, and predecessors, and each of them, from any and all claims, demands, damages, debts, losses, causes of action, costs, expenses, accounts, obligations, attorney's fees, liabilities, actions, causes of actions and indemnities of all and any nature whatsoever, under the law of any jurisdiction worldwide, whether known or unknown, suspected or unsuspected, whether concealed or hidden, which Overture now has, owns or holds or at any time heretofore ever had, owned or held, or could, shall or may hereafter have, own or hold against Licensee and its wholly-owned subsidiaries, based upon or arising out of the Licensed Patents prior to the Effective Date (collectively referred to as the "Released Matters"). It is the intention of the parties in executing this Agreement that this Agreement shall be effective as a full and final accord and satisfaction and general release of and from the Released Matters. With respect to any and all of the claims encompassed by this Section, Overture intends to and does hereby expressly waive, to the fullest extent permitted by law, the provisions, rights, and benefits of Section 1542 of the California Civil Code, which provides that:

> A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have a materially affected his settlement with the debtor.

Overture further agrees that it may hereafter discover facts in addition to or different from those which are known or believed by Overture to be true with respect to the subject matter of this Section, but Overture nonetheless intends to, and does hereby fully, finally, and forever release any and all such claims, as described above, without regard to the subsequent discovery or existence of such different or additional facts.

ARTICLE III
TERM OF LICENSE

3.1 Unless sooner terminated in accordance with this Agreement, the License shall continue for the entirety of the term of the last to expire (including by a final determination of invalidity or unenforceabilty) of the Licensed Patents (the "Term").

ARTICLE IV
ROYALTIES

4.1 As consideration for the rights granted hereunder, and including payment for Licensee's manufacture, offer for sale, sale and use under the Licensed patents prior to the Effective Date, Licensee shall make a one-time payment of $5,174,000.00 (the "Upfront Payment"), payable pursuant to Article V. The amount of the Upfront Payment is inclusive of any applicable taxes under any jurisdiction worldwide.

4.2 In addition, as further consideration for the rights granted herein and taking into consideration the ongoing and valuable business relationship between the parties,

Licensee shall pay to Overture a favorable royalty rate of 3.75% (“Royalty Rate”) of Licensee’s Gross Revenue through December 31, 2016, after which no further royalty payments for the Licensed Patents shall be due. *** The amount of the Royalty Rate is inclusive of any applicable taxes under any jurisdiction worldwide.

4.3 Overture and Licensee are simultaneously entering into an agreement entitled Overture Master Agreement and dated the same as the Effective Date herein. The Upfront Payment will be discounted to $4,500,000.00 provided that this amount is paid in its entirety in accordance with Section 5.1 and the Overture Master Agreement remains in effect until *** which is the *** of the *** of the Overture Master Agreement; otherwise, no discount shall apply to any portion of the Upfront Payment. The Royalty Rate also will be discounted by 20% to 3.0% so long as the Overture Master Agreement remains in force and effect.

ARTICLE V
PAYMENTS AND REPORT

5.1 The total amount of the Upfront Payment shall be paid within *** of the Effective Date.

5.2 Within *** after the end of each *** thereafter, Licensee shall furnish to Overture *** in a form mutually agreed by the parties, and certified by an officer of Licensee to be correct to the best of Licensee’s knowledge and information, setting forth the *** applied thereto, and the *** payable thereon. Each *** shall be accompanied by Licensee’s payment of the amount due. All payments under this Agreement shall be in U.S. dollars.

5.3 Any payments, or portions thereof, more than *** overdue will bear a late payment fee of ***, or, if lower, the maximum rate allowed by applicable law.

ARTICLE VI
BOOKS AND RECORDS

6.1 Licensee shall maintain complete and accurate records and books of account in sufficient detail and form to enable determination and verification of *** until *** after the expiration or termination of this Agreement. Overture shall have the right, at its expense (except as provided below), to audit Licensee’s books and records for the purpose of verifying *** during the term of this Agreement and for a period of *** after expiration or termination of this

[***] Represents material which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Agreement. Any audits made pursuant to this Section 6.1 shall be made not more than *** written notice, during regular business hours, by independent auditors reasonably acceptable to Licensee. For any audit performed hereunder, if the auditor's calculation of *** is less than *** of the figures provided by Licensee in the ***, then (i) Licensee shall also pay the reasonable cost of the audit and (ii) such audit shall not count against the *** under this Section 6.1.

ARTICLE VII
CONFIDENTIALITY

7.1 The terms of this Agreement are confidential. Notwithstanding the confidentiality of this Agreement, the parties may disclose the existence (but not any of its terms) of this Agreement to any third party; provided, however, that Licensee shall not make any statements to the media or issue any other press releases whatsoever regarding this Agreement without the prior written consent of Overture. If either party determines upon the advice of legal counsel that disclosure of this Agreement to a third party is required under applicable law, then such disclosure may be made provided that the disclosing party gives notice in writing to the other party at least *** in advance of such disclosure and makes a good faith effort, in consultation with the other party, to take appropriate measures to ensure that the terms of this Agreement remain confidential to the extent permitted by law.

ARTICLE VIII
TERMINATION

8.1 Overture may terminate this Agreement in its entirety or for a particular country or website following *** written notice to Licensee, in the event Licensee:

(a) fails to make, within the *** period set by the notice, any payment which is due and payable pursuant to this Agreement and has been in arrears for more than ***; or

(b) commits a material breach of any other obligation of this Agreement that is not cured (if capable of being cured) within the *** period set by the notice; or

(c) becomes insolvent or, a petition in bankruptcy is filed against Licensee and is consented to, acquiesced in or remains undismissed for ***; or makes a general assignment for the benefit of creditors, or a receiver is appointed for Licensee, and Licensee does not return to solvency before the expiration of said *** period set by the notice.

8.2 Licensee shall have the right to terminate this Agreement for any reason upon *** prior written notice. In addition, Licensee shall be entitled to terminate this Agreement upon *** written notice to Overture in the event of Overture's material breach of any of the provisions or this Agreement that is not cured (if capable of being cured) within the *** period set by the notice.

[***] Represents material which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

8.3 Termination of this Agreement for any reason shall not affect any rights or obligations accrued prior to the effective date of such termination, and specifically Licensee's obligation to pay all of the ***, specified by Article IV; and Licensee's obligations of confidentiality specified in Article VII, and the provisions of Articles V, VI, IX, and X shall survive the termination of this Agreement. In the event of termination, *** shall become due and payable as of the date of termination.

8.4 The rights provided in this Article VIII shall be in addition and without prejudice to any other rights which the parties may have with respect to any breach or violations of the provisions of this Agreement.

8.5 Waiver by either party of a single default or breach or of a succession of defaults or breaches shall not deprive such party of any right to terminate this Agreement pursuant to the terms hereof upon the occasion of any subsequent default or breach.

ARTICLE IX
WARRANTIES; INDEMNIFICATION

9.1 Overture represents and warrants that it owns the entire right, title, and interest in and to the Licensed Patents. Overture makes no representations or warranties that any Licensed Patent is valid, or that the manufacture, use, performance or that the exploitation of the Licensee System does not infringe upon any patent or other rights of a third party.

9.2 Limitation of Liability. NOTWITHSTANDING ANYTHING ELSE IN THIS AGREEMENT OR OTHERWISE, OVERTURE WILL NOT BE LIABLE OR OBLIGATED WITH RESPECT TO ANY SUBJECT MATTER OF THIS AGREEMENT OR UNDER ANY CONTRACT, NEGLIGENCE, STRICT LIABILITY OR OTHER LEGAL OR EQUITABLE THEORY (a) FOR ANY ***; (b) FOR ANY COST OF PROCUREMENT OF SUBSTITUTE GOODS, TECHNOLOGY, SERVICES, OR RIGHTS; (c) FOR ANY SPECIAL, INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES; (d) FOR INTERRUPTION OF USE OR LOSS OR CORRUPTION OF DATA; OR (e) FOR ANY MATTER BEYOND ITS REASONABLE CONTROL. THE FOREGOING LIMITATION IS A FUNDAMENTAL PART OF THE BASIS OF OVERTURE'S BARGAIN HEREUNDER. OVERTURE WOULD NOT ENTER INTO THIS AGREEMENT ABSENT SUCH LIMITATION.

ARTICLE X
MISCELLANEOUS

10.1 This Agreement may not be amended except by written agreement signed by both of the parties. This Agreement is the complete and exclusive statement of the mutual understanding of the parties and supersedes all previous written and oral agreements and communications relating to the subject matter of this Agreement.

[***] Represents material which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

10.2 Any notice, report, approval or consent required or permitted hereunder shall be sufficient only if personally delivered, delivered by a internationally recognized commercial rapid delivery courier service or mailed by certified or registered mail, return receipt requested to a party at its address set forth on the signature page hereto or as amended by notice pursuant to this section.

10.3 Licensee shall comply with all foreign and United States federal, state, and local laws, regulations, rules and orders applicable to the License granted hereunder and the subject matter set forth herein. The parties agree that they are each independent contractors and nothing in this Agreement will be deemed to establish a joint venture, partnership, agency or employment relationship between the parties. Neither party has the right or authority to assume or create any obligation or responsibility on behalf of the other.

10.4 Licensee shall include all notices provided by Overture regarding the Licensed Patents and the License on all websites where the Licensed System is displayed, used or operated. Such notices shall reference the Licensed Patents and shall be pre-approved (including the location thereof on the websites) by Overture. Other than the required Licensed Patents notices, and except as specifically provided herein, Licensee shall not use the name Overture or Yahoo! for any purpose without the prior written consent obtained from Overture in each instance.

10.5 Neither this Agreement nor any interest herein may be transferred, assigned or otherwise hypothecated by Licensee, directly or indirectly, voluntarily or involuntarily, in whole or in part, by operation of law or otherwise, without the prior written consent of Overture, which shall not be unreasonably withheld, and any attempted transfer or assignment without such consent shall be void.

10.6 Notwithstanding Section 10.5, either party may terminate this Agreement without liability to the other party upon the existence of a Change in Control by Licensee.

10.7 This Agreement shall be governed by and construed under the laws of the State of California and the United States without regard to conflicts of laws provisions thereof and without regard to the United Nations Convention on Contracts for the International Sale of Goods. Both parties consent to the jurisdiction and venue of the California state and U.S. federal courts in Los Angeles County for all actions related to the subject matter hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate originals by their duly authorized representatives.

OVERTURE SERVICES, INC.

By: /s/ Ted Meisel
Name: Ted Meisel
Title: President, Overture Services, Inc.

Overture Services, Inc.
74 North Pasadena Avenue
Pasadena, CA 91103

Attention: Jeanine L. Hayes, Esq.
Telephone: 626-685-5600
Facsimile: 626-685-5601

MARCHEX, INC.

By: /s/ John Keister
Name: John Keister
Title: President

Marchex, Inc.
413 Pine St., Suite 500
Seattle, Washington 98101

Attention: General Counsel
Telephone: 206-331-3310
Facsimile: 206-331-3696

Exhibit 10.7

Marchex, Inc.

2004 EMPLOYEE STOCK PURCHASE PLAN

As amended on December 8, 2005

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.

(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 National 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 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 carried forward and credited for use in the next Purchase Period. If the Employee chooses not to participate in the next Purchase Period, any balance will be refunded to him 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.

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, 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., 2101 Fourth Avenue, Suite 1980, Seattle, Washington 98121. 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, (a) subject to the provisions of clauses (b) and (c), 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 (b) all outstanding Options may be cancelled by the Board of Directors or the Committee 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 (c) all outstanding Options may be cancelled by the Board of Directors or the Committee as of the effective date of any such transaction, provided that notice of such cancellation shall be given to each holder of an Option, and each holder of an Option shall have the right to exercise such Option in full based on payroll deductions then credited to his account as of a date determined by the Board of Directors or the Committee, which date shall not be less than ten
(10) days preceding 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 National 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 no such amendment (without approval by the company's stockholders) shall: (i) increase the total number of shares of Common Stock which may be purchased by all Participants or (ii) change the class of

Employees eligible to receive Options under the Plan. 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 10.32

MARCHEX, INC. AMENDED & RESTATED
ANNUAL INCENTIVE PLAN

Marchex, Inc., a Delaware corporation (the "Company"), established the Marchex, Inc. Annual Incentive Plan, effective as of January 1, 2007 and as amended effective January 1, 2011 (the "Incentive Plan"). The purpose of the Incentive Plan is to motivate and reward performance resulting in the achievement of corporate objectives, to increase the competitiveness of pay without increasing fixed costs and to align the compensation of the management team to key financial drivers.

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

ARTICLE II.
BONUS AWARDS

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

Section 2.2—Performance Targets. A Participant shall be eligible to earn a bonus award under the Incentive Plan based on the achievement of performance targets by the Company, as determined by the Committee for each fiscal year of the Company. The performance targets for a fiscal year shall be determined on or before March 31st of such year and shall be based on the following objective business criteria and measured against such performance targets, as the Committee determines: (a) revenues; (b) pre-tax income; (c) adjusted operating income before amortization; (d) operating income before amortization; (e) operating income; (f) net earnings; (g) net income; (h) cash flow or funds from operations; (i) adjusted earnings per share; (j) earnings per share; (k) appreciation in the fair market value of the Company's stock; (l) cost reductions or savings; (m) implementation of critical processes or projects; or (n) adjusted EBITDA or earnings before any of the following items: interest, taxes, depreciation or amortization.

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

ARTICLE III.
PAYMENT OF BONUS AWARD

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

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

ARTICLE IV.
TERMINATIONS

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

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

ARTICLE V.
ADMINISTRATION

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

ARTICLE VI.
OTHER PROVISIONS

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

Section 6.2—Miscellaneous.

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

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

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

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

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

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

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

* * * * *

Exhibit 21.1

List of Subsidiaries of the Registrant

	Name	Jurisdiction
1.	Marchex Paymaster, LLC	Delaware
2.	goClick.com, Inc.	Delaware
3.	Marchex LLC	Delaware
4.	Marchex Sales, Inc	Delaware
5.	Marchex CAH, Inc.	Delaware
6.	Marchex CA Corporation	Nova Scotia
7.	Marchex International, Ltd.	Ireland
8.	Marchex Voice Services, Inc.	Pennsylvania
9.	Marchex Europe Limited	United Kingdom

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 (Nos. 33-116867, 333-123753, 333-132957, 333-141797, 333-149790,333-158394 and 333-165536) on Form S-8 of Marchex, Inc. of our reports dated March 14, 2011, with respect to the consolidated balance sheets of Marchex, Inc. as of December 31, 2009 and 2010, 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, 2010, and the effectiveness of internal control over financial reporting as of December 31, 2010, which reports appear in the December 31, 2010 annual report on Form 10-K of Marchex, Inc.

/s/ KPMG LLP

Seattle, Washington
March 14, 2011

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 14, 2011

/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 14, 2011

/s/ MICHAEL A. ARENDS

Michael A. Arends
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Russell C. Horowitz, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Marchex, Inc. for the fiscal year ended December 31, 2010 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Marchex, Inc.

Dated: March 14, 2011

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

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael A. Arends, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Marchex, Inc. for the fiscal year ended December 31, 2010 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Marchex, Inc.

Dated: March 14, 2011

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