

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

- (Mark One)
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019
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
(State or other jurisdiction of
incorporation or organization)
520 Pike Street, Suite 2000
Seattle, WA
(Address of principal executive offices)

35-2194038
(I.R.S Employer
Identification No.)

98101
(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	Trading Symbol(s)	Name of each exchange on which registered
Class B Common Stock, \$0.01 par value per share	MCHX	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the shares of Class B common stock on The NASDAQ Stock Market on June 30, 2019 was \$166,541,600.

The number of shares of Registrant's Class A common stock outstanding as of March 10, 2020 was 4,660,927. The number of shares of Registrant's Class B common stock outstanding as of March 10, 2020 was 39,762,577.

Portions of the Registrant's Definitive Proxy Statement relating to the 2020 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We use words such as “believes”, “intends”, “expects”, “anticipates”, “plans”, “may”, “will” and similar expressions to identify forward-looking statements. All forward-looking statements, including, but not limited to, statements regarding our future operating results, financial position, prospects, acquisitions, dispositions, and business strategy, expectations regarding our growth and the growth of the industry in which we operate, and plans and objectives of management for future operations, are inherently uncertain as they are based on our expectations and assumptions concerning future events. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements we make. There are a number of important factors that could cause the actual results of Marchex to differ materially from those indicated by such forward-looking statements. 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, and those described from time to time in our future reports filed with the SEC. 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 conversational analytics and solutions company that helps businesses connect, drive, measure, convert callers into customers, and connects the voice of the customer to your business. We deliver data insights and incorporate artificial intelligence (AI)-powered functionality that drives insights and solutions to help companies find, engage and support their customers across voice and text-based communication channels.

We believe that mobile devices have changed the consumer journey. We believe people are spending more time than previously on their smartphones. It’s become more common to research on mobile devices and interact with a business through phone calls or text communications. We believe that understanding this behavior enables businesses to get a better understanding of communication with their customers and prospects across the communication channels they prefer.

We believe we have a set of tools for enterprises that depend on phone calls, texts and other communication channels to help convert prospects into customers, to deliver compelling customer experiences during the sales process and maximize advertising returns. Our mission is to help our customers grow by giving them real-time insights into the conversations they are having with their customers across phone, text and other communication channels. Marchex leverages proprietary data and conversational insights to deliver real-time AI-powered functionality that drives solutions that help enable brands to personalize customer interactions in order to accelerate sales and grow their business. We connect key media sources – paid and owned – to offline purchase outcomes and deliver these insights directly into marketer workflows. We provide and are developing products and services for businesses of all sizes that depend on calls, texts and other communication channels to drive sales. Our analytics products can provide actionable intelligence on the major media channels advertisers use to acquire customers over the phone.

Our primary product offerings are:

- **Marchex Call Analytics.** Marchex Call Analytics is an analytics platform for enterprises that depend on inbound phone calls to drive sales, appointments and reservations. Marketers can use this platform to understand which marketing channels, advertisements, search keywords, or other digital marketing advertising formats are driving calls to their business, allowing them to optimize their advertising expenditures across media channels. Marchex Call Analytics also includes technology that can extract data and insights about what is happening during a call and measures the outcome of calls and return on investment. The platform also includes technology that can block robocalls, telemarketers and spam calls to help save businesses time and expense. Marchex Call Analytics data can integrate directly into third-party marketer workflows such as Salesforce, Eloqua, Adobe, Google, Kenshoo, Marin Software, Facebook and Instagram, in addition to other marketing dashboards and tools. Advertisers pay us a fee for each call/text or call/text related data element they receive from calls or texts, including call-based ads we distribute through our sources of call distribution or for each phone number tracked based on pre-negotiated rates.
- **Marchex Speech Analytics.** Marchex Speech Analytics is a product that can enable actionable insights for enterprise, mid-sized and small businesses, helping them understand what is happening on inbound calls from consumers to their business. Marchex Speech Analytics leverages our proprietary and patent pending speech recognition technology. Marchex Speech Analytics incorporates machine and deep learning algorithms and AI-powered conversation analysis functionality that can give customers strategic, real-time visibility into company performance in customer interactions. Marchex Speech Analytics includes customizable dashboards and visual analytics to make it easier for marketers, salespeople and call center teams to realize actionable insights across a growing amount of call data. According to a February 2018 MarketsandMarkets report, the speech analytics market is expected to grow from \$941 million in 2017 to \$2.2 billion by 2022.
- **Text Analytics and Communications.** With the acquisitions of Sonar Technologies, Inc. (“Sonar”) in December 2019 as well as SITA Laboratories, Inc. (d/b/a Callcap) (“Callcap”) and Telmetrics, Inc. (“Telmetrics”) in November 2018, Marchex enables businesses to send and receive text/SMS messages with customers. In addition, the Company can provide insights for businesses on text and messaging interactions and offer customized text engagement solutions to improve the customer experience and accelerate the sales process. According to a 2018 study by MobileSquared, there were 1.67 trillion applications to consumer SMS messages globally with the number expected to rise to 2.8 trillion by 2022. According to a 2017 study from Listrak, 75% of consumers prefer offers from businesses delivered via text and business offers delivered via SMS text marketing had a 97% read-rate.
- **Call Monitoring.** Marchex provides businesses the ability to have an unbiased view into every inbound or outbound call, from providing a call recording, to offering services to create customized call performance scorecards, both of which can help businesses learn more about their customers and enhance service quality and customer satisfaction. Through these services, businesses can customize the insights they want in order to improve business practices and to grow faster.
- **Marchex Sales Edge.** Launched in 2019, Marchex Sales Edge incorporates artificial intelligence-based functionality within the product suite that can help enable businesses to understand customer conversations in phone calls and via text, in real-time and at scale, and can help enable businesses to learn how to optimize the sales process in order to take the right actions to win more business. These solutions can arm businesses with the data-driven intelligence they need to deliver on-demand and personalized customer experiences. Marchex Sales Edge products include:
 - **Marchex Sales Edge Rescue.** Marchex Sales Rescue combines Marchex artificial intelligence and machine learning with conversational call monitoring and scoring services and can alert businesses when potential buyers hang up without making an appointment or purchase, or when certain calls did not meet the business’ sales or customer service

standards. Marchex Sales Rescue can identify in real-time when potential high-value customer prospects engaged in conversations with sales representatives are mishandled in any number of ways, and can give businesses the opportunity to re-engage immediately to capture these potentially lost opportunities, as well as avoid undesired customer experiences. It can give businesses a more complete picture of the in-bound opportunities they are missing, while also measuring the effectiveness and impact of capturing those opportunities through outbound engagement.

- **Marchex Sales Edge Enterprise.** Marchex Sales Edge Enterprise is a product for corporate managers that can provide conversation performance insights and trends across a brand or network of distributed business locations. The conversational data analyses can provide critical sales insights that can help enterprises boost outcomes across national and regional sales organizations.
- **Marchex Sales Edge Local.** Marchex Sales Edge Local is expected to be available in the latter half of 2020 and is a product for business location managers that analyze phone conversations. Marchex Sales Edge Local can provide performance insights and prioritize leads using intelligent lead scoring and integrating with existing workflows and tools companies use each day, like Salesforce Sales Cloud CRM. This product can help companies grow their business at each location by prioritizing their best leads, while arming them with tools they can use to train their sales teams
- **Marchex Omnichannel Analytics Cloud.** Marchex Omnichannel Analytics Cloud leverages the call analytics platform and can provide a single source to marketers to see which media channels are driving phone calls across search, display, video, site, and social media. Our Omnichannel Analytics Cloud products include:
 - **Marchex Search Analytics.** Marchex Search Analytics is a product for search marketers that can drive phone calls from search campaigns. Marchex Search Analytics can attribute inbound phone calls made from paid search ads and landing pages to a keyword. The platform can deliver this data as well as data about call outcomes directly into search management platforms like Google Search and Kenshoo. According to a June 2016 BIA Kelsey report, mobile calls represent 60% of inbound calls to businesses in 2016. This equals 85 billion global mobile calls annually, a figure that is projected to grow to 169 billion calls by 2020.
 - **Marchex Display and Video Analytics.** Marchex Display and Video Analytics is a product for marketers that buy digital display advertising. Marchex Display and Video Analytics can measure the influence that display advertising has on inbound phone calls so that marketers can better attribute their return on advertising spend for inbound phone calls and delivers this data to marketers in a reporting dashboard. According to a January 2019 eMarketer report, US advertisers are expected to spend nearly \$68 billion in 2019 on display advertising.
 - **Marchex Site Analytics.** Marchex Site Analytics is a product for marketers that can drive phone calls from websites. Marchex Site Analytics can identify which websites are driving calls and provides actionable insights to help marketers understand the customer's journey to their website, what drove them to call, and can enable marketers to better optimize both online and offline.
 - **Marchex Social Analytics.** Marchex Social Analytics is a product for marketers that buy social media advertising. Marchex Social Analytics can help measure the influence social media advertising has on inbound calls from platforms like Facebook or Instagram so marketers can see which posts are working. According to Statista, global social media is forecasted to grow from \$76 billion in 2018 to \$125 billion by 2023.
- **Marchex Audience Targeting.** Marchex Audience Targeting leverages call data to automatically build unique audience segments for display and social media platforms. Marchex Audience Targeting can help marketers target high intent audiences with their display campaigns and fine-

tune campaigns to specific audience segments that are most likely to convert to customers, or can find new segments and opportunities that have not been targeted before.

- **Marchex Call Marketplace.** Marchex Call Marketplace is a mobile advertising network for businesses that depend on inbound phone calls to drive sales. We offer advertisers ad placements across numerous mobile and online media sources to deliver qualified calls to their businesses. It leverages analytics for tracking, reporting and optimization. Advertisers are charged on a pay-per-call or cost per action basis.
- **Local Leads.** Our local leads platform is a white-labeled, full service advertising solution for small business resellers, such as Yellow Pages providers and vertical marketing service providers, to sell call advertising, search marketing and other lead generation products through their existing sales channels to their small business advertisers. These calls and leads are then fulfilled by us across our distribution network, including mobile sources, and search engines. Reseller partners and publishers generally pay us account fees and agency fees for our products in the form of a percentage of the cost of every click or call delivered to their advertisers. Under one of our contracts with Thryv, Inc. (formerly known as Dex Media, Inc., successor in interest to Yellowpages.com LLC) (“Thryv”), we generate revenues from our local leads platform. This local leads platform agreement, which expires December 31, 2020, provides Thryv flexibility to migrate active accounts to itself or a third-party provider prior to the end of an advertiser contract and provides Thryv with certain termination rights upon four months notice. We also have separate pay-for-call services and distribution partner agreements with Thryv and separate reseller partner agreements with Thryv for additional pay-for-call and separate call analytics services. Thryv is our largest reseller partner and was responsible for 23% and 26% of our total revenues for the years ended December 31, 2018 and 2019, respectively.

We operate primarily in domestic markets.

Industry Overview

For many businesses, calls are critical to drive sales. For businesses of all sizes, in-bound phone calls can be a key source of new customer leads and increased revenue. We believe consumers that call businesses directly typically have higher purchase intent and can be more likely to make a purchase or become a customer. According to a July 2017 independent research study by Forrester Consulting, the study found that phone customers convert faster, spend more, and have a higher retention rate than customers who contact brands through other channels. Based on a survey of marketing decision makers, the study found that 60% of marketers said that those who initiate an inbound call in the course of the customer journey convert an average of 30% faster, spend an average of 28% more, and 54% of marketers said they have a 28% higher retention rate. Calls can be particularly relevant in high-value categories, such as automotive, digital agencies, home services, insurance, telecommunications and travel and hospitality, where transaction values are large, complex or require additional information prior to completion. Calls are also important for local businesses that set appointments or sell products and services over the phone. Historically, the majority of this advertising has been spent on traditional media such as television, newspapers and directories. With the mass adoption of mobile, both large and small advertisers are increasingly seeking new marketing channels that allow them to connect with consumers over the phone. According to a July 2016 BIA/Kelsey Industry Watch report, mobile calls represents 60% of inbound calls to businesses which equates to 85 billion in global calls annually, that will grow to 169 billion in 2020. In that same report, BIA/Kelsey estimates phone calls influence \$1 trillion in U.S. spending at some stage of the path to purchase.

Calls and texts are becoming the increasingly important to business and consumer interactions and to mobile advertising. According to a 2019 eMarketer study, consumers are spending more time on their mobile devices than in front of televisions for the first time, a trend that is forecasted to grow. This growth in mobile smartphone usage is also changing the way businesses and consumers interact. According to MarketingCharts, the top two uses of mobile phones among consumers are texting/messaging and calling. It is critical that businesses develop strategies to understand their consumer engagement via calls and texts as well as to reach consumers on mobile devices. The global mobile advertising market was \$138.1 billion in 2018 and is expected to grow to \$212.4 billion by 2021, according to a December 2018 Zenith Media report. Calls and texts are two of the primary consumer communication methods with businesses on mobile devices and building solutions to help businesses understand their consumer interactions through these communication channels can help businesses engage and grow their customers. Furthermore, the mobile advertising market matures, we believe advertisers will increasingly utilize performance based advertising formats available on mobile devices, as they did on desktop. Further, we believe the demand for businesses to connect with consumers over the phone combined with the inherent functionality and technical capabilities of mobile devices will result in calls and texts becoming a primary measurement unit/format for mobile advertising. As advertisers continue to shift their budgets to accommodate for the growth of mobile channels, we believe the market for call analytics and advertising solutions will grow even more.

Understanding calls and/or texts is highly complex. Unlike clicks, impressions and other actions that are tracked and measured in digital format, calls and text messages take place offline and require unique technical capabilities and expertise to accurately measure and analyze. To realize the full benefit of call and/or text-based marketing, advertisers need technology that allows them to capture and analyze attributes of a call and/or text before, during and after the call and/or text is completed. This technology can help them better measure return on investment (“ROI”) and optimize their marketing campaigns across media channels. For example, advertisers want to be able to dynamically track the source of a call back to the media channels and advertisements that influenced the consumer to make the call. Once a call is initiated, technology is required to understand what is happening on a call, to record anonymized calls, and to block unwanted or spam calls. For advertisers with call center operations, calls are often tracked and routed through interactive voice response (“IVR”) phone systems and integrated with customer relationship management (“CRM”) applications and back-office systems to measure transactions and return on investment. Successful marketing analytics for calls requires expertise from multiple disciplines, including digital advertising, communications infrastructure, voice and speech recognition expertise, and marketing software.

Mobile search and calls from search are growing. Today we believe we are witnessing an evolution in consumer behavior as Internet-enabled mobile devices proliferate and media consumption shifts to mobile devices. According to a December 2017 Zenith report, mobile devices are projected to account for 73% of internet consumption in 2018. This trend is increasingly evident in the way consumers research products and services and connect with businesses through the phone or through walking into a store, both offline environments, when they are ready to make a purchase decision. According to a BIA/Kelsey study in January 2014, mobile searches also have

higher conversion rates in driving calls (57%) compared to desktop searches (7%). Mobile users in this sense are more ready-to-buy, in the right location and with a device whose core function is to make phone calls.

Ad budgets are shifting to performance-based models. As businesses have expanded their marketing through digital channels, they have increasingly turned to performance-based advertising formats in which they are only charged when a desired outcome is reached. Performance-based advertising models provide advertisers with greater transparency into their advertising spend and the ability to more accurately measure results and return on investment. Over time, the online advertising market has shifted from CPM-based banner and display advertisements and included more cost-per-click search advertising and other forms of performance marketing.

Our Competitive Strengths

Focus on calls and texts. Over the past several years, with the increasing importance that mobile devices play in consumer interactions with businesses and in advertising, we have shifted the focus of our company to address the large opportunity to help businesses accelerate sales through improving their interactions with consumers over the phone and, more recently, through text communications. As consumer usage and mobile performance advertising has grown over the last decade, it is driving growth in offline actions like calls and texts. As one of the first companies to help businesses utilize data driven insights and analytics to accelerate sales from phone conversations, we have developed solutions which can deliver measurable return on investment to both large national brands and local small businesses through tying these offline phone conversations to their online marketing initiatives and offering sales acceleration solutions to help business create a better customer experience and grow sales. Our conversational analytics technology and products are specifically designed to help address the challenges associated with closing the loop between digital marketing and phone calls. We are developing solutions that can provide customers insights across a broad spectrum of conversations they are having with their customers in voice and text communications along with solutions to engage consumers in their preferred communication channels. Working closely with our customers, we have innovated in speech technology, creating specific solutions to address common needs and wants among both large enterprise advertisers and small businesses. We believe we are unique with our call and more recently text focused approach to technology developments and marketing solutions, facilitating a competitive advantage as mobile advertising grows and advertising budgets shift towards performance-based formats and consumer communication channels with businesses expand across multiple communication channels.

Call analytics platform powered by proprietary speech technology. Marchex's speech technology delivers data and can provide closed loop marketing insights on offline customer interactions and operational insights to customers looking to accelerate sales and to measure the performance of their customer interactions during the sales process over the phone. When consumers call a business or call center from their phones, our technology can analyze that call data using machine and deep learning algorithms and AI-powered conversation analysis functionality that can deliver real-time conversational insights and feedback to companies on the quality of their customer interactions during the sales process as well as to identify lost businesses opportunities. Our data can also help advertisers adjust and improve their marketing strategies in order to create personalized solutions to drive more sales over the phone either directly with the business or the call center. This intelligence can help advertisers optimize their ad campaigns across media channels, keywords, and creative elements, which helps maximize their return on investment. We also provide integrations with other marketing dashboards to provide advertisers one place to review their analytics information. Integrations may take the form of working with CRM platforms or customer-specific systems, with the purpose of enhancing advertisers' understanding and measurement of outcomes at scale. We are consistently working to create products to help advertisers understand what is happening on the calls with their customers and how to spend their budgets more efficiently, whether the channel is online, offline, or mobile. Our speech analytics technology can help determine which of these calls converts into a sale. Access to these insights provides advertisers visibility and measurement into their ad expenditures. With Marchex's Speech Analytics technology, we are leveraging proprietary technology to analyze and deliver actionable advertising and operational insights to advertisers that engage with consumers over the phone.

Transparent, performance-based model. Through our call analytics technology, we can develop a deep understanding of which publishers, devices, ad formats, keywords and ad creatives drive call conversion for specific advertising verticals and helps optimize the placements of advertisements across our network to maximize the number of calls for our advertisers and revenue for our partners. As a result, advertisers utilize us to place ads on their behalf and our partners believe we will deliver ads on their properties to help generate revenue and/or customers for them. Through our pay-for-call business model, we can better align our interests with those of our advertising customers and our publishing partners. We work with customers to define a quality call for their

business, and then charge our customers, on a per call basis. As a result, we are able to deliver qualified leads that can provide a measurable return on investment for our advertisers.

Scalable technology platform and business model. We have developed our technology platform to address the large advertisers, while also being able to support a large number of small local business advertisers. Our platform can support hundreds of millions of calls and thousands of unique advertiser accounts, and in aggregate manage many dollars in advertising spend across various digital channels. We leverage our relationships with Yellow Pages providers and vertical market service providers to efficiently re-sell our solutions to their small businesses customers, adding scale and data to our platform, which provides us with revenues with reduced associated sales costs. We have deployed a direct sales model to acquire and service large advertisers and also have been successful at deepening our relationships with existing advertiser clients over time in an effort to capture a greater share of their advertising budgets.

Strategy

Our Strategy

Key elements of our strategy include:

Innovating on Conversational Analytics Technology and Solutions. We plan to continue to expand and invest in our speech analytics technology and expand our AI, data science, and machine learning capabilities. We also plan to continue to expand our range of call, text, and other communication channels analytics and engagement product capabilities by growing our conversation analytics and solutions offerings, including AI-driven speech technology solutions, call tracking, call monitoring, text communications, keyword-level tracking, display ad impression measurement and other products as part of our owned, end-to-end, call and text-based advertising solutions. Our expanding capabilities are enabling us to develop new solutions, like sales acceleration and personalization solutions that enable us to take advantage of our growing conversational data assets. Our products and features that are at the center of our investments and innovation include: (1) *Marchex Speech Analytics*, which can help companies understand what is happening on inbound calls from consumers and can deliver actionable operational and advertising insights from those consumer interactions; (2) *Text Analytics and Communications*, which enables businesses to send and receive text/SMS messages with customers and can provide insights for businesses on text and messaging interactions to improve the customer experience and accelerate the sales process; (3) *Sales Edge Suite*, which incorporates artificial intelligence-based functionality within the product suite that can help enable businesses to understand customer conversations in phone calls and via text, in real-time and at scale, and can help enable businesses to learn how to optimize the sales process in order to take the right actions to win more business. These solutions can arm businesses with the data-driven intelligence they need to deliver on-demand and personalized customer experiences; (4) *Marchex Omnichannel Analytics Cloud*, which can connect call data to media channels, including search, display and video, social and sites, to phone calls made to a business; and (5) *Marchex Audience Targeting*, which leverages call data and can automatically build audience segments for display and social media platforms. Additional information regarding our product offerings is included in the Overview section on pages 1 through 3. 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.

Supporting and Growing the Number of Customers and Advertisers Using Our Products and Services. We plan to continue to provide a consistently high level of service and support to our conversational analytics and solutions customers and our advertisers and we will continue to help them achieve their return on investment goals. We are focused on increasing our advertiser base through our direct sales and marketing efforts, including strategic sales, inside sales, and additional partnerships with large local advertiser resellers.

Pursuing Selective Acquisition Opportunities. We intend to pursue select acquisition opportunities and will apply 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 one or more of the following characteristics:

- revenue growth and expanding margins and operating profitability or the characteristics to achieve larger scale and profitability;
- opportunities for business model, product or service innovation, evolution or expansion;
- under-leveraged and under-commercialized assets in related or unrelated businesses;

- an opportunity to enhance efficiencies and provide incremental growth opportunities for our operating businesses; and
- business defensibility.

In November 2018, we acquired 100% of the outstanding stock of Telmetrics Inc. (“Telmetrics”), an enterprise call and text tracking and analytics company, for consideration of \$10.1 million in cash at closing and up to \$3.0 million in cash based upon the achievement of certain financial growth targets over two corresponding 12 month periods following the closing.

In November 2018, we acquired 100% of the outstanding stock of SITA Laboratories, Inc. (d/b/a Callcap) (“Callcap”), a call monitoring and analytics solutions company, for consideration of approximately \$25 million in cash at closing and approximately \$10 million in value of shares of Marchex’s Class B common stock (“Common Stock”), calculated based on a 10 day trailing average of Marchex’s Common Stock daily closing price on Nasdaq prior to the closing with 25% of such shares of Common Stock to be issued on the first, second, third and fourth annual anniversary of the closing, respectively.

In December 2019, we acquired 100% of the outstanding stock of Sonar Technologies, Inc. (“Sonar”) for consideration of approximately \$8.5 million in cash at closing and approximately 1.0 million shares of Class B common stock to be issued over the three-year period following the acquisition date, with the timing of issuance subject to certain conditions and with any shares not previously issued to be issued on the fifth anniversary of the acquisition date. We also agreed to issue up to approximately 389,000 shares of Class B common stock based upon the achievement of certain financial target goals by Sonar in 2020. To the extent earned and payable, one half of such shares will be issued upon the first anniversary of the closing and one half will be issued upon the second anniversary of the closing, with the timing of issuance subject to certain conditions and with any shares not previously issued to be issued on the fifth anniversary of the acquisition date.

Evolving Our Business Strategy. Our industry is undergoing significant change and our business strategy is continuing to evolve to meet these changes. In order to profitably grow our business, we may need to expand into new lines of business beyond our current focus of providing mobile advertising analytics products and services, which may involve pursuing strategic transactions, including potential acquisitions of, or investments in, related or unrelated businesses, including our recent investment in a newly established company which intends to offer regular car service primarily as an employee benefit. In addition, we may seek divestitures of existing businesses or assets.

Developing New Markets. We intend to analyze opportunities and may seek to expand our technology-based products into new business areas 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 have technology integration partnerships and referral agreements with Adobe, Google Search, and Salesforce, Facebook, and other third-party marketers. We anticipate utilizing various strategies to enter new markets, including: developing strategic relationships; innovating with existing proprietary technologies; acquiring products that address a new category or opportunity; and creating joint venture relationships.

Building and Expanding Relationships with Advertising Agencies. Advertising agencies are influential in determining how large national advertisers allocate their advertising budgets. We believe building deep relationships with leading global advertising agencies and creating awareness within these agencies about the benefits of our offerings is an important step in attracting new large advertising customers. We plan to continue building strong relationships with advertising agencies.

Our Distribution Network

We have built a broad distribution network for our pay-for-call advertising services that includes many call-ready media and traffic sources, including mobile sources, search engines and applications, directories, third party vertical and branded web sites, and offline sources. We distribute advertisements from our tens of thousands of advertiser accounts including our reseller partners’ advertisers in our call advertising, local leads and search marketing services, through our distribution network.

Our Distribution partners include:

Selected Carriers	<i>AT&T</i>	<i>T-Mobile</i>	<i>TracFone</i>	<i>Verizon</i>
Selected Search Engines	<i>Google</i>	<i>Bing</i>	<i>Yahoo!</i>	
Selected Vertical and Local Distribution	<i>Avantar</i> <i>Mapquest</i>	<i>GroundTruth</i> <i>MSN</i>	<i>Google Mobile</i> <i>Whitepages, Inc.</i>	

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

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

Sales, Marketing & Business Development

Our sales department focuses on adding new advertisers to our business and growing existing advertiser relationships, 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 the following main categories:

- **Direct Sales.** Our direct sales team targets new relationships with national and global advertisers and the advertising agencies that represent them through in-person presentations, direct marketing, telesales and attendance at industry events, among other methods. Our advertiser agreements include a combination of agency fees, pay-for-call fees, and cost-per-action fees.
- **Technology Integration Partnerships and Referral Agreements.** We have integration partnerships with Adobe, Google, Salesforce, and other third-party marketers, and we signed an agreement with Facebook which will integrate across Facebook's social analytics solution into the Marchex Omnichannel Analytics Cloud. We also have referral agreements with entities that promote our services to large numbers of potential advertisers including select technology partners. Our referral partner agreements are based on a combination of revenue sharing and performance-based fees.
- **Reseller Partnerships.** We have a business development team that focuses primarily on securing partnerships with large advertiser reseller partners, under which we supply and integrate our products and services. Our reseller partner agreements include a combination of revenue and profit sharing, licensing revenue, pay-for-call, call analytics, and cost-per-action.

We intend to continue our strategy of increasing our advertiser base through sales and marketing programs while being efficient in terms of our marketing and advertising costs. We continually evaluate our marketing and advertising strategies to optimize the effectiveness of our programs and their return on investment.

Information Technology and Systems

We have a proprietary technology platform for the purposes of managing and delivering call, click-based, and cost-per-action advertising products and services to our partners. We also combine third-party licenses and hardware to create an operating environment for delivering high quality products and services, with such features as automated online account creation and management process for advertisers, real-time customer support with both interactive and online reporting for customers and partners. We employ commercially available technologies and products distributed by various companies, including Cisco, Dell, Oracle, Intel, AMD, Microsoft, IBM, Nuance and Veritas. We also utilize public domain software such as Apache, Linux, MySQL, PostgreSQL, Java, Scala and Tomcat.

Our technology platform is compatible with the systems used by our distribution partners, enabling us to deliver call, click-based, and cost-per-action advertising products and services through mobile, online and offline sources in rapid response to user queries made through such partners at scale. We continue to build and innovate additional functionality to attempt to meet the quickly evolving demands of the marketplace. We devote significant financial and human resources to improving our advertiser and partner experiences by continuing to develop our technology infrastructure. The cost of developing our technology solutions is included in the overall cost structure of our services and is not separately funded by any individual advertisers or partners. In order to maintain a professional level of service and availability, we primarily rely upon third parties to provide hosting services, including hardware support and service, and network monitoring at various domestic and international locations. Our servers are configured for high availability and large volumes of call, mobile and Internet traffic and are located in leased third party facilities. Back-end databases make use of redundant servers and data storage arrays. We also have standby servers that provide for additional capacity as necessary. The facilities housing our servers provide redundant HVAC, power and internet connectivity. As revenue grows and the volume of transactions and call, mobile and internet traffic increases, we will need to expand our network infrastructure. Inefficiencies in our network infrastructure to scale and adapt to higher call, mobile and internet traffic volumes could materially and adversely affect our revenue and results of operations.

We continuously review ways to improve major aspects of our technology support and maintenance, including improving, upgrading and implementing business continuity plans, data retention initiatives, and backup and recovery processes.

Competition

Our offerings currently or potentially compete with a variety of companies in a highly competitive and fragmented industry. We currently or potentially compete with leading search engines and digital advertising networks such as Google, Microsoft, and Oath, and call analytics technology providers such as Twilio, Invoca, Convirza, and Dialogtech. As we continue to advance our data analytics and sales acceleration solution technologies, we anticipate facing increased competition from companies providing a wide range of analytics and more broad advertising solutions, such as data management companies like Oracle and customer relationship management solutions like Salesforce. In addition, as our sales acceleration solution technologies continue to expand, we expect we may see competition from contact center solution companies like Verint and NICE. We also face competition on the call supply side, where competing mobile advertising companies like GroundTruth look to outbid, partner with or otherwise secure sources of call supply we utilize. Many of our potential competitors, as well as potential entrants into our target markets, have longer operating histories, larger customer or user bases, greater brand recognition and greater financial, marketing and other resources than we have. Many current and potential competitors can devote substantially greater resources than we can to marketing, web site and systems development. In addition, as the use of the mobile, Internet, and other online services increases, there will likely be larger, more well-established and well-financed entities that acquire companies relevant to our business strategy; and invest in or form joint ventures in categories or countries relevant to our business strategy; all of which could adversely impact our business. Any of these trends could increase competition, reduce the demand for any of our services and could have a material adverse effect on our business, operating results and financial condition.

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

We provide our services to and also may compete with: (1) mobile and online advertisers; (2) partners who provide a distribution network for mobile, online, and offline advertising; and (3) other intermediaries who may provide purchasing and/or sales opportunities, including advertising agencies, and other search engine marketing companies. Many of the companies that could fall into these categories are also our partners, including Google, Oath, Citysearch, Microsoft and Thryv, Inc. (formerly known as Dex Media, Inc., successor in interest to Yellowpages.com LLC) ("Thryv"). We depend on maintaining and continually expanding our network of partners and advertisers to generate mobile and online transactions.

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

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

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

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

Seasonality

We 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 online usage and seasonal purchasing cycles of many advertisers. Our experience has shown that during the spring and summer months, mobile and internet usage is lower than during other times of the year and during the latter part of the fourth quarter of the calendar year we generally experience lower call volume and reduced demand for calls from our call advertising customers. The extent to which usage and call volume may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage and call volume during these periods may adversely affect our growth rate and results and in turn the market price of our securities. Historically, we have seen this trend generally reversing in the first quarter of the calendar year with increased mobile and internet usage and often new budgets at the beginning of the year for many of our customers with fiscal years ending December 31. However, there can be no assurances such seasonal trends will consistently repeat each year. The current business environment and our industry has generally both resulted in, and we may continue to see, many advertisers and reseller partners reducing advertising and marketing services budgets or adjusting such budgets throughout the year, changing marketing strategies or agency affiliations, or advertisers being acquired by parent companies with alternative media initiatives, 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 rely on a combination of patent, copyright, trademark and trade secret laws in the United States and other jurisdictions, as well as license agreements and other contractual protections, to protect our proprietary technology. We also rely on a number of registered and unregistered trademarks to protect our brand.

As of December 31, 2019, in the United States, we have been issued 33 patents, which are estimated to expire between 2022 and 2035, and have 6 patent applications pending for examination. As of such date, in Canada we also have 1 issued patent which expires in 2026 and 1 patent application pending for examination. In addition, as of

December 31, 2019, we have 15 trademarks registered in the United States, 2 trademarks pending registration in the United States, and 19 trademarks registered in foreign jurisdictions.

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.

We further seek to protect our intellectual property rights by implementing a policy that requires our employees and independent contractors involved in development of intellectual property on our behalf to enter into agreements acknowledging that all works or other intellectual property generated or conceived by them on our behalf are our property, and assigning to us any rights, including intellectual property rights, that they may claim or otherwise have in those works or property, to the extent allowable under applicable law.

Despite our efforts to protect our technology and proprietary rights through intellectual property rights, licenses and other contractual protections, unauthorized parties may still copy or otherwise obtain and use our software and other technology. In addition, we may continue to expand our international operations, and effective intellectual property, copyright, trademark and trade secret protection may not be available or may be limited in foreign countries. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Further, companies in the internet, communications and technology industries may own large numbers of patents, copyrights and trademarks and may frequently threaten litigation, or file suit against us based on allegations of infringement or other violations of intellectual property rights, which may adversely affect our business or financial prospects.

Regulation

Mobile and online search, e-commerce and related businesses face uncertainty related to new or future government regulation at the federal, state, and international levels regarding e-commerce, online tracking, online data collection, and use of the Internet. Due to the rapid growth and widespread use of the Internet, state and federal legislatures (both domestically and abroad) 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 companies that engage in e-commerce, or otherwise interact with the Internet 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, data security, 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, state, and foreign laws that may affect 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 online collection of personal information about children and the use of that information. The Federal Trade Commission (FTC) has the authority to impose fines and penalties upon website operators and online service providers that do not comply with the law. We do not currently offer any websites or online services "directed to children," nor do we knowingly collect personal information from children.
- The Protection of Children from Sexual Predators Act requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances.

- The Controlling the Assault of Non-Solicited Pornography and Marketing (CAN SPAM) Act of 2003 establishes requirements for those who send commercial e-mails, spells out penalties for entities that transmit noncompliant commercial e-mail and/or whose products are advertised in noncompliant commercial e-mail and gives consumers the right to opt-out of receiving commercial e-mails. The majority of the states also have adopted similar statutes governing the transmission of commercial e-mail. The FTC and the states, as applicable, are authorized to enforce the CAN-SPAM Act and the state-specific statutes, respectively. CAN-SPAM gives the Department of Justice the authority to enforce its criminal sanctions. Other federal and state agencies can enforce the law against organizations under their jurisdiction, and companies that provide Internet access may sue violators as well.
- The Electronic Communications Privacy Act prevents private entities from disclosing Internet subscriber records and the contents of electronic communications, subject to certain exceptions.
- The Computer Fraud and Abuse Act and other federal and state laws protect computer users from unauthorized computer access/hacking, and other actions by third parties which may be viewed as a violation of privacy. Courts may apply each of these laws in unintended and unexpected ways. As a company that provides services over the Internet as well as call recording and call tracking services, we may be subject to an action brought under any of these or future laws.
- Among the types of legislation currently being considered at the federal and state levels are consumer laws regulating for the use of certain types of software applications or downloads and the use of “cookies.” These proposed laws are intended to target specific types of software applications often referred to as “spyware,” “invasiveware” or “adware,” and may also cover certain applications currently used in the online advertising industry to serve and distribute advertisements. In addition, the FTC has sought inquiry regarding the implementation of a “do-not-track” requirement. Federal legislation is also expected to be introduced that would regulate “online behavioral advertising” practices. If passed, these laws would impose new obligations for companies that use such software applications or technologies. At least one state already has enacted a law, which went into effect in January 2014, regarding online tracking.

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 countries may enact laws that 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, Data Protection Directives (and similar legislation in other countries where we may have operations), and the recently enacted EU General Data Protection Regulation which went into full effect in May 2018 and which supersedes the current EU data protection regulation, which is directly applicable to all member states and which is expected to result in substantial changes to our compliance obligations and a significant increase in potential administrative fines for non-compliance. 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.

In addition, the potential regulation of new and emerging technologies, such as artificial intelligence (“AI”) which we are increasingly building into many of our new offerings, may result in increased compliance costs and risks. Any additional costs and penalties associated with increased compliance and risk reduction could make certain offerings less profitable or increase the difficulty of bringing certain offerings to market.

We provide information and analytics services to certain advertisers and reseller partners that may include information services. In connection therewith, we obtain 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, our call recording and pay-for-call services may directly subject us 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 (“TCPA”) which limits the use of autodialing systems, artificial or prerecorded voice messages, SMS text messages and fax machines, the Telemarketing Sales Rule, the Telemarketing Consumer Fraud and Abuse Prevention Act, the Telephone Robocall Abuse Criminal Enforcement and Deterrence Act and the rules and regulations promulgated thereunder. In recent years, the TCPA has become a fertile source for both individual and class action lawsuits and regulatory actions. Specifically, the TCPA restricts telemarketing and the use of automatic SMS text messages without proper consent. The scope and interpretation of the laws that are or may be applicable to the delivery of text messages are continuously evolving and developing. If we do not comply with these laws or regulations or if we become liable under these laws or regulations due to the failure of our customers or distribution partners to comply with these laws by obtaining proper consent, we could face liability.
- 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 we undertake material modifications to our platforms and processes to permit wiretapping and other access for law enforcement personnel.
- Under various Orders of the Federal Communications Commission, we 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 of our subsidiaries, and may impose additional taxes, fees or telecommunications surcharges on the provision of our services which we may not be able to pass through to customers.
- Our international operations may expose us to telecommunications regulations and data and privacy regulations (including the EU General Data Protection Regulation) in the countries where we are operating and these regulations could negatively affect the viability of our business in those regions.
- We expect the trend towards enhanced regulation and personal rights applicable to the collection, use, storage and sharing of personal information to continue. For example, California recently enacted the California Consumer Privacy Act (“CCPA”), which took effect on January 1, 2020. The CCPA established requirements for businesses and grants individuals with rights similar to those contained in the GDPR. The CCPA gives California residents expanded rights to access and delete their personal information, opt out of certain personal information sharing, and receive detailed information about how their personal information is used. Like the GDPR, the CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. Some observers have noted that the CCPA could mark the beginning of a trend toward more stringent state privacy legislation in the U.S., which could adversely affect our business.

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

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

The acquisition of Internet domains generally is governed by Internet regulatory bodies, predominantly the Internet Corporation for Assigned Names and Numbers (ICANN). The regulation of Internet domains in the United States and in foreign countries is subject to change. ICANN and other regulatory bodies could establish additional requirements for previously owned Internet domains or modify the requirements for Internet domains. Furthermore, ICANN has and will likely continue to make changes to the scope of domain products available to the marketplace that could have an impact on the competition for domain.

Compliance with complex foreign and U.S. laws and regulations that apply to our international operations, including Telmetrics, 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 international operations, including Telmetrics, also subject us to increased foreign currency exchange rate risks and will require additional management attention and resources.

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

Employees

As of December 31, 2019, we employed a total of 291 full-time employees. We have never had a work stoppage, and none of our employees are represented by a labor union. We consider our employee relationships to be positive. If we were unable to retain our key employees or we were unable to maintain adequate staffing of qualified employees, particularly during peak sales seasons, our business would be adversely affected.

Web site

Our web site, www.marchex.com, provides access, without charge, to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such materials are electronically filed with the Securities and Exchange Commission. To view these filings, please go to our web site and click on “Investor Relations” and then click on “SEC Filings.” Investors and others should note that we announce material financial information to our investors using our investor relations website, press releases, SEC filings, and public conference calls and webcasts. We also use the following social media channels as a means of disclosing information about us, our services, and other matters, and for complying with our disclosure obligations under Regulation FD:

- Marchex Twitter Account (<https://twitter.com/marchex>)
- Marchex Company Blog (<http://wwwblog.marchex.com/blog>)
- Marchex LinkedIn Account (<http://linkedin.com/company/marchex>)

The information we post through these social media channels may be deemed material. Accordingly, investors should monitor the above account and the blog, in addition to following our investor relations website, press releases, SEC filings, and public conference calls and webcasts. This list may be updated from time to time. The information we post through these channels is not a part of this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

An investment in our Class B common stock involves various risks, including those mentioned below and those that are discussed from time to time in our other periodic filings with the SEC. Investors should carefully consider these risks, along with the other information contained in this report, before making an investment decision regarding our stock. There may be additional risks of which we are currently unaware, or which we currently consider immaterial. All of these risks could have a material adverse effect on our business, financial condition, results of operations, and the value of our stock.

Risks Relating to Our Company

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

We had an accumulated deficit of \$260.2 million as of December 31, 2019. 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. This may result in the reduction of our cash balances or the incurrence of debt.

We have in the past and may in the future find it advisable to take measures to streamline operations and reduce expenses, including, without limitation, reducing our workforce or discontinuing certain products or businesses. Such measures may place significant strains on our management and employees, and could impair our development, marketing, sales, and customer support efforts. We may also incur liabilities from these measures. Such effects from streamlining could have a negative impact on our business and financial results.

We believe that our future revenue growth will depend on, among other factors, our ability to attract new advertisers, compete effectively, maximize our sales efforts, demonstrate a positive return on investment for advertisers, successfully improve existing products and services, and develop successful new products and services. If we are unable to generate adequate revenue growth and to manage our expenses, we may continue to incur significant losses in the future and may not be able to achieve or maintain profitability.

We are dependent on certain distribution partners, for distribution of our services, and we derive a significant amount 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. There was no distribution partner paid more than 10% of total revenues for the year ended December 31, 2019. Our existing agreements with many of our 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 or contribution due to lower calls and traffic or less favorable variable payment terms from any one of these distribution relationships could have a material adverse effect on our business, financial condition and results of operations.

Companies distributing advertising through mobile or online Internet have experienced, and will likely continue to experience, consolidation. This consolidation has reduced the number of partners that control the mobile and online advertising outlets with the most user calls and traffic. According to the comScore qSearch analysis of the U.S. desktop search marketplace for January 2020, Verizon Media and Microsoft accounted for 11.3% and 25.3%, respectively, of the core search market in the United States and Google accounted for 62.5%. 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 Google, Microsoft, and Verizon Media 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 Thryv, Resolution Media, OMD Digital, CDK Global, hibu Inc., and Web.com 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 and agencies 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. Additionally, these advertiser reseller partners and agencies may decide to operate the advertising services we perform internally with their own teams and technology. A loss of certain advertiser reseller partners and agencies or a decrease in revenue from these clients could adversely affect our business.

Under one of our contracts with Thryv, Inc. (formerly known as Dex Media, Inc., successor in interest to Yellowpages.com LLC) (“Thryv”), we generate revenues from our local leads platform. This local leads platform agreement will expire on December 31, 2020 and we expect the remaining active accounts to be migrated or to wind down at that time which will result in reduced revenue and profitability contribution. The local leads platform agreement provides Thryv flexibility to migrate active accounts to itself or a third-party provider prior to the end of an advertiser contract and provides Thryv with certain termination rights upon four months notice. We expect Thryv may decrease the number of new advertiser accounts with us and may elect to migrate certain active accounts to itself or a third-party provider which would result in fewer small business accounts and related revenues, as well as reduced contribution and profitability. Thryv’s small business account base utilizing our platform has declined, and to the extent declines occur in their business, their small business accounts may spend fewer dollars on our pay-for-call services. We expect Thryv and local leads platform advertisers in future periods will comprise lower total revenues compared to previous periods and Thryv as a percentage of our total revenue may also comprise a smaller percentage of our total revenue. We also have separate pay-for-call services and distribution partner agreements with Thryv and separate reseller partner agreements with Thryv for pay-for-call and call analytics services. Thryv is our

largest reseller partner and was responsible for 26% of our total revenues for the year ended December 31, 2019. It is possible that changes to our relationship and agreements with Thryv may occur and result in a significant reduction in the paid account fees, agency fees, call analytics revenues, and per call or lead fees that we receive from Thryv. There can be no assurance that our business with Thryv in the future will continue at or near current revenue and contribution levels, that we will be able to renew and extend the contracts set to expire on December 31, 2020, and if renewed, the contracts may be on less favorable terms to us, any of which could have a material adverse effect on our future operating results.

We also have agreements with advertising agencies, such as Resolution Media and OMD Digital, who act on an advertiser's behalf and may represent more than one advertiser that utilizes our products and services. Our primary agreements with Resolution Media and OMD Digital are for pay-for-call services whereby we charge an agreed-upon price for qualified calls or leads from our network and call analytic services. Resolution Media and OMD Digital accounted for 13% and less than 10% of total revenues, respectively, for the year ended December 31, 2019.

These reseller partners and agencies may in certain cases be subject to negotiated terms and conditions separate from those applied to advertising clients. 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. 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 51% and 50% of our revenue from our five largest customers for the years ended December 31, 2018 and 2019, 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 51% and 50% of our total revenues for the years ended December 31, 2018 and 2019, respectively. Thryv was our largest customer and was responsible for 26% of our total revenues for the year ended December 31, 2019.

We have agreements with Resolution Media and OMD Digital, who act as agents on advertisers' behalf, for pay-for-call services whereby we charge an agreed upon price for qualified calls or leads from our network and call analytic services. A single advertiser, State Farm who utilizes our services primarily through Resolution Media and OMD Digital, accounted for 15% of total revenues for the year ended December 31, 2019. We expect in the near to intermediate term campaign spend levels related to State Farm to be lower compared to recent quarters, which will result in lower total revenues and contribution.

Many of our other large customers, including reseller partners, and advertising agencies are not subject to long term contracts with us or have contracts with near term expiration dates, and are able to reduce or cease advertising spend at any time and for any reason. Reseller partners purchase various advertising and marketing services from us, as well as provide us with a large number of advertisers. A loss of reseller partners or a decrease in revenue from these resellers could adversely affect our business. In some cases, we engage with advertisers through advertising agencies, who act on behalf of the advertisers. Advertising agencies, such as Resolution Media and OMD Digital, may place insertion orders with us on behalf of advertisers (including State Farm) for particular advertising campaigns, which are typically short term and subject to a specified dollar amount, and are not obligated to commit beyond the campaign governed by a particular insertion order and may also cancel the campaign prior to completion. Advertising agencies also have relationships with many different providers, each of whom may be running portions of the advertising campaign. We have call advertising agreements with certain large customers, which provide flexibility around financial commitments, termination rights, indemnification, and security obligations. Our large customers may vary spend levels and there can be no assurances that our large customers will continue to spend at levels similar to prior quarters. If any of our largest customers are acquired, such acquisition may impact its advertising spending or budget with us, including due to rebranding, change in advertising agency, or change in media tactics. A significant reduction in advertising spending or budgets 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 have a material adverse effect on our future operating results.

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 that may arise. Any of the foregoing factors could result in a material adverse effect on our business, financial condition and results of operations.

If some of our customers experience financial distress or suffer disruptions in their business, their weakened financial position could negatively affect our own financial position and results.

We have a diverse customer base and, at any given time, one or more customers may experience financial distress, file for bankruptcy protection, go out of business, or suffer disruptions in their business. We believe this risk is magnified at least for the near term by the disruption caused by the recent coronavirus outbreak. In addition, this disruption is likely to disproportionately impact certain business sectors, including sectors where we have significant customers such as automotive, financial services, home services and travel and hospitality. If a customer with whom we do a substantial amount of business experiences financial difficulty or suffers disruptions in their business, it could delay or jeopardize the collection of accounts receivable, result in significant reductions in services provided by us and may have a material adverse effect on our results of operations and liquidity.

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

Many of our advertisement distribution processes are automated. In some cases, advertisers or reseller partners use our online tools and account management systems to create and submit advertiser listings, and in other cases, we create and submit advertising listings on behalf of our advertisers or reseller partners using 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 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 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 or third parties they may contract

with and any breach of these agreements on the part of any distribution partner or its affiliates could result in liability for our business. These agreements include indemnification obligations on the part of our distribution partners, but there is no guarantee that we would be able to collect against offending distribution partners or their affiliates in the event of a claim under these indemnification provisions. Alternatively, we may incur substantial costs as part of our indemnification obligations to distribution partners for liability they may incur as a result of displaying content we have provided them. Any costs incurred as a result of activities of our distribution partners and their third-party partners could have a material adverse effect on our business, operating results and financial condition.

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 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, data security, 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.

The actual or perceived improper sending of text messages or voice calls may subject us to potential risks, including liabilities or claims relating to consumer protection laws and regulatory enforcement, including fines. For example, the Telephone Consumer Protection Act of 1991 restricts telemarketing and the use of automatic SMS text messages without explicit customer consent. The scope and interpretation of the laws that are or may be applicable to the delivery of text messages or voice calls are continuously evolving and developing. If we do not comply with these laws or regulations or if we become liable under these laws or regulations due to the failure of our customers or distribution partners to comply with these laws by obtaining proper consent, we could face direct liability. We rely on contractual representations made to us by our customers and distribution partners that they will comply with our policies and applicable law, including, without limitation, our email and messaging policies. We cannot predict whether our role in facilitating our customers' or other users' activities or activities by our distribution partners would expose us to liability under applicable law. Even if claims asserted against us do not result in liability, we may incur substantial costs in investigating and defending such claims. If we are found liable for our customers' or other users' activities or activities by our distribution partners, we could be required to pay fines or penalties, redesign business methods or otherwise expend resources to remedy any damages caused by such actions and to avoid future liability, which could have a material adverse effect on our business, financial condition and results of operations.

Our insurance policies may not provide coverage for liability arising out of activities of our customers, distribution partners or other 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 call analytics, pay-for-call, performance-based advertising, 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 depends in part on certain of our large reseller partners and agencies to grow their base of advertisers as these advertisers become increasingly important to our business and our ability to attract additional distribution partners and opportunities. Similarly, if our distribution network does not grow and does not continue to improve over time, current and prospective advertisers and reseller partners and agencies may reduce or terminate this portion of their business with us. Any decline in the number of advertisers and distribution partners could adversely affect the value of our services.

The mobile advertising market may develop more slowly than expected, which could harm our business.

If the market for mobile marketing and advertising develops more slowly than we expect, our business could suffer. Our future success is highly dependent on the commitment of advertisers and marketers to mobile communications as an advertising and marketing medium, the willingness of our potential advertisers to outsource their mobile advertising and marketing needs, and our ability to sell our mobile advertising services to reseller partners and agencies. The mobile advertising and marketing market is rapidly evolving. Businesses, including current and potential advertisers, may find mobile advertising or marketing to be less effective than traditional advertising media or marketing methods or other technologies for promoting their products and services. As a result, the future demand and market acceptance for mobile marketing and advertising is uncertain. Many of our current or potential advertisers may have little or no experience using mobile communications for advertising or marketing purposes and have allocated only a limited portion of their advertising or marketing budgets to mobile communications advertising or marketing, and there is no certainty that they will allocate more funds in the future, if any. Funds to these types of campaigns may fluctuate greatly as different agencies and advertisers test and refine their overall marketing strategies to include mobile advertising and analytics tools. The adoption rate and budget commitments may vary from period to period as agencies and advertisers determine the appropriate mix of media and lead sources in short and long term campaigns.

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 agencies, 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 or other actions such as non-human processes, including robots or robocallers, spiders or other software, the mechanical automation of calling, and other types of invalid calls, call fraud, or call spam, the purpose of which is something other than to view the underlying content. Similarly, our network service providers may adopt new filtering technologies in an effort to combat spam or robocalling. Such technologies may inadvertently filter desired messages or calls to or from our customers. 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 phone calls and Internet traffic, these refunds may increase. Low quality mobile, online, offline and other traffic may further prevent us from growing our base of advertisers and cause us to lose relationships with existing advertisers, or become the target of litigation, both of which would adversely affect our revenues.

We depend on being able to secure enough phone numbers to support our advertisers and other users of our services and any obstacles that we face which prevent us from meeting this demand could adversely affect our business.

We utilize phone numbers as part of a number of information and analytic services to advertisers, such as our call analytics, call tracking, and pay-for-call services. Our services that utilize phone numbers are designed to enable advertisers and other users of our services to utilize mobile, online and offline advertising and to help measure the effectiveness of mobile, online and offline advertising campaigns. We secure a majority of our phone numbers through telecommunication carriers that we have contracted with and a smaller number through the 800 Service Management System, and such telecommunication carriers provide the underlying telephone service. Our telecommunications carriers and telephone number acquisition process are subject to the rules and guidelines established by the Federal Communications Commission. Furthermore, to the extent we offer call recording and pay-for-call services, we may be directly subject to certain telecommunications-related regulations. The Federal Communications Commission and our telecommunication carriers may change the rules and guidelines for securing phone numbers or change the requirements for retaining the phone numbers we have already secured. As a result, we may not be able to secure or retain sufficient phone numbers needed for our services. We may also be limited in the number of available telecommunications carriers or vendors to provide such phone numbers to us in the event of any industry consolidations.

Our automated voice and mobile advertising-based technologies are heavily reliant on vendors.

Certain voice and mobile advertising-based products are heavily reliant on vendors. The free directory product that we provide relies on technology provided by third party vendors that include voice recognition software and business, government and residence data listings. We cannot guarantee that the technology, data and services provided by our third-party vendors will be of sufficient quality to meet the demands of our customers and partners. Further, we cannot guarantee that the technologies, data and services will be available to us in the future on acceptable terms, if at all. Any perception by our customers or partners that our voice and mobile advertising-based products are incomplete or not of sufficient quality could lead to a loss in confidence by our customers or partners, which in turn could lead to a decline in revenues. If we are unable to continue maintaining, advancing and improving our voice and mobile advertising-based products, our operating results may be adversely affected.

Our business strategy is evolving and may involve pursuing new lines of business or strategic transactions and investments, some of which may not be successful.

Our industry is undergoing significant change and our business strategy is continuing to evolve to meet these changes. In order to profitably grow our business, we may need to expand into new lines of business beyond our current focus of providing call analytics and advertising products and services, which may involve pursuing strategic transactions, including potential acquisitions of, or investments in, related or unrelated businesses. In addition, we may seek divestitures of existing businesses or assets. There can be no assurance that we will be successful with our efforts to evolve our business strategy and we could suffer significant losses as a result, which could have a material adverse effect on our business, financial condition and results of operations.

Our recent investment in a new business may not be successful.

We have recently made a majority equity investment in a newly established company which intends to enable businesses to offer regular car service primarily as an employee benefit. This business model is unrelated to our current focus of providing conversational analytics and sales enablement solutions. This new business is subject to the various risk factors associated with any early stage company. In addition, we are reliant on the management team of this new business in overseeing its day to day operations. There can be no assurance that this new business will be successful in achieving its business model or if ultimately successful the timing of any such success or that our investment will prove to be profitable.

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 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;
- We may seek to enter new markets where we have no or limited experience or where competitors may have stronger market positions;
- Integrating new companies, including Telmetrics, Callcap and Sonar, may take longer than expected;
- 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;
- Acquisitions of certain companies may result in us pursuing a diversified operating or holding company structure to allow us to focus on running diverse businesses independently, but in such event we may not realize the anticipated strategic benefits;
- 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, including litigation;
- We could incur possible impairment charges related to goodwill or other intangible assets resulting from acquisitions 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.

We may decide to dispose of assets or a business that may no longer help us meet our objectives.

If we decide to sell assets or a business, we may encounter difficulty in finding buyers or alternative exit strategies on acceptable terms in a timely manner, which could delay the achievement of our strategic objectives. We may also dispose of a business at a price or on terms that are less desirable than we had anticipated. In addition, we may experience greater disruption to our remaining business than expected, and the impact of the divestiture on our revenue may be larger than projected.

Our international operations and any expansion subjects us to additional risks and uncertainties and we may not be successful with our international operations.

We have operations in Canada through Telmetrics and through our international subsidiaries, in other countries. We have international subsidiaries in Canada, Ireland, and the United Kingdom. Any international expansion presents 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. We may also have to offer our products and services in a modified format which may not be as compelling to certain customers, and we are subject to increased foreign currency exchange rate risks and our international operations and any expansion will require additional management attention and resources. We cannot assure you that we will be successful in our international operations. 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, including the possibility of storing data locally if customers require;
- difficulties in managing operations due to language barriers, distance, staffing and cultural differences;
- application of foreign laws and regulations to us, in particular data and privacy regulations in Europe and other international jurisdictions, including the EU General Data Protection Regulation which went into full force and effect in May 2018 and which supersedes the current EU data protection regulation, which continue to change and impose significantly more liability and product limitations on service providers in our industry;
- compliance with anti-bribery laws, such as the Foreign Corrupt Practices Act and the UK Anti-Bribery Act;
- tariffs and other trade barriers;
- fluctuations in currency exchange rates;
- establishing local offices, sales channels, management systems and infrastructures;
- reduced protection for intellectual property rights in some countries;
- changes in foreign political and economic conditions;
- compliance with the laws of numerous taxing jurisdictions, both foreign and domestic;
- foreign exchange controls that might prevent us from repatriating cash earned outside the United States;
- the complexity and potentially adverse tax consequences of U.S. tax laws as they relate to our international operations;
- increased costs to establish and maintain effective controls at foreign locations; and
- overall higher costs of doing business internationally.

Our failure to address these risks adequately could materially and adversely affect our business, revenue, results of operations and financial condition.

We may be subject to intellectual property claims, which could adversely affect our financial condition and ability to use certain critical technologies, divert our resources and management attention from our business operations and create uncertainty about ownership of technology essential to our business.

Our success depends, in part, on our ability to operate without infringing on the intellectual property rights of others. There can be no guarantee that any of our intellectual property will not be challenged by third parties. We may be subject to patent infringement claims or other intellectual property infringement claims, and claims of copyright infringement with respect to certain of our websites that would be costly to defend and could limit our ability to use certain critical technologies. Our call advertising business increases the potential intellectual property infringement claims we may be subject to, particularly in light of the large number of patents which have been issued (or are pending) in the telecommunications field over the last several decades, both in the U.S. and internationally.

We believe that a consolidation of patent portfolios by major technology companies and independent asset holding companies will increase the chances of aggressive assertions of patent and other intellectual property claims. Within the technology telecommunications and online sectors, among other related sectors, we have witnessed various claim holders and alleged rights holders pursue business strategies devoted to extracting settlements or license fees for a wide range of basic and commonly accepted methods and practices. We may be subject to those

intellectual property claims in the ordinary course of our business. Also, our partners and customers may also find that they are subject to similar claims, in which case we may be included in any related process or dispute settlement. Any patent or other intellectual property litigation could negatively impact our business by diverting resources and management attention from other aspects of the business and adding uncertainty as to the ownership of technology, services and property that we view as proprietary and essential to our business. In addition, a successful claim of patent infringement against us and our failure or inability to license the infringed or similar technology on reasonable terms, or at all, could prevent us from using critical technologies which could have a material adverse effect on our business.

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

We may require additional funding to meet our ongoing obligations and to pursue our business strategy, which may include the selective acquisition of businesses and technologies. In addition, we have incurred and we may incur certain obligations in the future. There can be no assurance that, if we were to need additional funds to meet these obligations, 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.

The loss of our senior management, including other key personnel, could harm our current and future operations and prospects.

We are heavily dependent upon the continued services of members of our senior management team and other key personnel. Each member of our senior management team and other key personnel are at-will employees and may voluntarily terminate his or her employment with us at any time with minimal notice. Following any termination of employment, each of these members 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. The loss of the services of any member of our senior management, including other key personnel, for any reason, or any conflict among our senior management or other key personnel, could harm our current and future operations and prospects.

We have experienced turnover in certain senior executives in recent years. Additional turnover at the senior management level may create instability within the Company and our employees may decide to terminate their employment, which could further impede the maintenance of our day to day operations. Such instability could impede our ability to implement fully our business plan and growth strategy, which would harm our business 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, property or systems suffer any damages, losses or claims by third parties that are not covered or adequately covered by insurance, our financial condition may be materially adversely affected. We currently have directors' and officers'

liability insurance. If we are unable to maintain sufficient insurance as a public company to cover liability claims made against our officers and directors, we may not be able to retain or recruit qualified officers and directors to manage our company, which could have a material adverse effect on our operations.

It may be difficult for us to retain or attract qualified officers and directors, which could adversely affect our business and our ability to maintain the listing of our Class B common stock on the NASDAQ Global Select Market.

We may be unable to attract and retain qualified officers, directors and members of board committees required to provide for our effective management as a result of changes in the rules and regulations which govern publicly-held companies, including, but not limited to, certifications from executive officers and requirements for financial experts on boards of directors. The perceived increased personal risk associated with these changes may deter qualified individuals from accepting these roles. Further, applicable rules and regulations of the Securities and Exchange Commission and the NASDAQ Stock Market heighten the requirements for board or committee membership, particularly with respect to an individual's independence from the corporation and level of experience in finance and accounting matters. We may have difficulty attracting and retaining directors with the requisite qualifications. If we are unable to attract and retain qualified officers and directors, our business and our ability to maintain the listing of our shares of Class B common stock on the NASDAQ Global Select Market could be adversely affected.

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

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

The Tax Cuts and Jobs Act of 2017 could adversely affect our business and financial condition.

On December 22, 2017, the U.S. government enacted comprehensive Federal tax legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 (the “Tax Act”). The Tax Act, among other changes, makes a U.S. federal net operating loss less valuable as an asset due to a new flat U.S. federal corporate income tax rate of 21%, replacing a graduated rate with a maximum income tax rate of 35%, effective January 1, 2018 and the elimination of the corporate alternative minimum tax for taxable years beginning after December 31, 2017. The alternative minimum tax credit carryforward is refundable for any taxable year beginning after 2017 and before 2022 in an amount equal to 50% (100% in the case of taxable years beginning in 2021) of the excess of the minimum tax credit for the taxable year over the amount of the credit allowable for the year against regular tax liability. Net operating losses arising in taxable years beginning after December 31, 2017 are limited in use to offset eighty percent of taxable income, without the ability to carryback such net operating losses, but with an indefinite carryforward of such losses (instead of the former 2-year carryback and 20-year carryforward for net operating losses arising in taxable years beginning before December 31, 2017). The amount of the net interest expense deduction is generally limited to (a) 30% of adjusted taxable income, calculated without regard to depreciation, amortization or depletion, effective for tax years beginning after December 31, 2017 and before January 1, 2022 and (b) 30% of net interest expense exceeding earnings before income taxes (reduced by depreciation, amortization and depletion), effective for tax years beginning after January 1, 2022. Disallowed amounts may be carried forward indefinitely, subject to ownership change limitations. We continue to examine the impact this tax reform legislation may have on our business. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the Tax Act is uncertain and our business and financial condition could be adversely affected.

We may experience unforeseen liabilities arising out of third-party domain names included in our distribution network, which could negatively impact our financial results.

We display pay-for-call listings on third party domain names and third-party websites that are part of our distribution network, which could subject us to a wide variety of civil claims including intellectual property ownership and infringement. 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.

We may face risks related to litigation that could result in significant legal expenses and settlement or damage awards.

From time to time, we are subject to claims and litigation, which could seriously harm our business and require us to incur significant costs.

We are generally obliged, to the extent permitted by law, to indemnify our current and former directors and officers who are named as defendants in these types of lawsuits. Defending against litigation may require significant attention and resources of management. Regardless of the outcome, such litigation could result in significant legal expenses.

If we are a party to material litigation and if the defenses we claim are ultimately unsuccessful, or if we are unable to achieve a favorable settlement, we could be liable for large damage awards that could have a material adverse effect on our business and consolidated financial statements.

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 call and text analytics and call tracking;
- sales to advertisers of pay-for-call services;
- delivery of pay-for-call advertising to end users or customers of advertisers through mobile and online destination websites or other offline distribution outlets;

- services and outsourcing of technologies that allow advertisers to manage their advertising campaigns across multiple networks and track the success of these campaigns;
- 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 designed to attract users and help consumers make better, more informed local decisions, while providing targeted advertising inventory for advertisers; and
- local search sales training.

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 leading search engines and digital advertising networks such as Google, Microsoft, and Verizon Media. We also compete with call analytics technology providers such as Twilio, Invoca, DialogTech, and Convirza. As we continue to advance our data analytics technologies, we anticipate facing increased competition from companies providing more broad advertising solutions, such as data management companies like Oracle. We also face competition on the call supply side, where competing mobile advertising companies like GroundTruth look to outbid, partner with or otherwise secure sources of call supply we utilize. 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. 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 digital/online 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 mobile or Internet advertising. We expect that large advertisers will continue to focus most of their advertising efforts on traditional media. If we fail to convince these companies to spend a portion of their advertising budgets with us, or if our existing advertisers reduce the amount they spend on our programs, our operating results would be harmed.

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

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

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

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

- fire;
- floods;
- network failure;
- hardware failure;
- software failure;
- power loss;
- telecommunications failures;
- break-ins;
- terrorism, war or sabotage;
- computer viruses;
- denial of service attacks;
- penetration of our network by unauthorized computer users and "hackers" and other similar events;
- natural disasters, including, but not limited to, hurricanes, tornadoes, and earthquakes; and
- other unanticipated problems.

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

Cybersecurity risks could adversely affect our business and disrupt our operations.

The threats to network and data security are increasingly diverse and sophisticated. Despite our efforts and processes to prevent breaches, our devices, as well as our servers, computer systems, and those of third parties that we use in our operations are vulnerable to cybersecurity risks, including cyber-attacks such as viruses and worms, phishing attacks, denial-of-service attacks, physical or electronic break-ins, employee theft or misuse, and similar disruptions from unauthorized tampering with our servers and computer systems or those of third parties that we use in our operations, which could lead to interruptions, delays, loss of critical data, unauthorized access to user data, and loss of customer confidence. In addition, we may be the target of email scams that attempt to acquire personal information or Company assets. Despite our efforts to create security barriers to such threats, we may not be able to entirely mitigate these risks. Any cyber-attack that attempts to obtain our or our users' data and assets, disrupt our service, or otherwise access our systems, or those of third parties we use, if successful, could adversely affect our business, operating results, and financial condition, be expensive to remedy, and damage our reputation. In addition, any such breaches may result in negative publicity, adversely affect our brand, decrease demand for our products and services, and adversely affect our operating results and financial condition.

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

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

We rely upon third-party cloud providers to host certain of our products and services, which is anticipated to increase over time. We may experience interruptions, delays and outages in service and availability from time to time as a result of problems with our third-party cloud providers' infrastructure. Lack of availability of this infrastructure could be due to a number of potential causes including technical failures, natural disasters, fraud or security attacks that we cannot predict or prevent. In addition, if our security, or that of any of these third-party cloud providers, is compromised, or our products and services are unavailable to our customers within a reasonable amount of time or at all, then our business, results of operations and financial condition could be adversely affected.

We also rely on a select group of third-party providers for components of our technology platform and support for our call-based and advertising 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. Short term or repeat problems with any of these service providers could provide an interruption of service or service quality impairment to significant customers, which could also impact materially our revenue in any period due to credits or potential loss of significant customers.

If our security measures, including those of our vendors or partners, are breached or are perceived as not being secure, we may lose advertisers, reseller partners and distribution partners and as a result we may incur significant legal and financial exposure and suffer an adverse effect on our business.

We store and transmit data and information about our advertisers, reseller partners, distribution partners and their respective users. We also work with vendors and partners who may come into contact with certain data, such as carriers, colocation and data storage facilities and distribution partners referring callers. 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, as well

as to assist in the delivery of services to our advertisers, may suffer breaches. Security breaches of our data storage systems or our third-party colocation and technology providers we utilize to store data and information relating to our advertisers, reseller partners, distribution partners and their respective users could expose us to significant potential liability. Similarly, security breaches of our vendors and partners, or ineffective data security by our vendors or partners, may result in similar significant liability. In addition, security breaches, actual or perceived, could result in legal liability, government fines, and 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.

We rely on a combination of patent, copyright, trademark and trade secret laws in the United States and other jurisdictions, as well as license agreements and other contractual protections, to protect our proprietary technology. We also rely on a number of registered and unregistered trademarks to protect our brand.

As of December 31, 2019, in the United States, we have been issued 33 patents, which are estimated to expire between 2022 and 2035, and have 6 patent applications pending for examination. As of such date, in Canada we also have 1 issued patent which expires in 2026 and 1 patent application pending for examination. In addition, as of December 31, 2019, we have 15 trademarks registered in the United States, 2 trademarks pending registration in the United States, and 19 trademarks registered in foreign jurisdictions.

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.

We further seek to protect our intellectual property rights by implementing a policy that requires our employees and independent contractors involved in development of intellectual property on our behalf to enter into agreements acknowledging that all works or other intellectual property generated or conceived by them on our behalf are our property, and assigning to us any rights, including intellectual property rights, that they may claim or otherwise have in those works or property, to the extent allowable under applicable law.

Despite our efforts to protect our technology and proprietary rights through intellectual property rights, licenses and other contractual protections, unauthorized parties may still copy or otherwise obtain and use our software and other technology. In addition, we may continue to expand our international operations, and effective intellectual property, copyright, trademark and trade secret protection may not be available or may be limited in foreign countries. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Further, companies in the Internet, communications and technology industries may own large numbers of patents, copyrights and trademarks and may frequently threaten litigation, or file suit against us based on allegations of infringement or other violations of intellectual property rights, which may adversely affect our business or financial prospects.

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

We may initiate patent litigation against third parties to protect or enforce our patent rights, and we may be sued by others seeking to invalidate our patents or prevent the issuance of future patents. We may also become subject to interference proceedings conducted in the patent and trademark offices of various countries to determine the priority of inventions. The defense and prosecution, if necessary, of intellectual property suits, interference proceedings and related legal and administrative proceedings is costly and may divert our technical and management personnel from their normal responsibilities. We may not prevail in any of these suits. An adverse determination of any litigation or defense proceedings could put our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not being issued. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, during the course of this kind of litigation, there could be public announcements of the results of hearings, motions or other interim proceedings or developments in the litigation. If securities analysts or investors perceive these results to be negative, it could have an adverse effect on the trading price of our Class B common stock.

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

Our quarterly results have fluctuated in the past and may fluctuate in the future due to seasonal fluctuations in the level of mobile and Internet usage and seasonal purchasing cycles of many advertisers. Our experience has shown that during the spring and summer months, mobile and Internet usage is generally lower than during other times of the year and during the latter part of the fourth quarter of the calendar year we generally experience lower call volume and reduced demand for calls from our call advertising customers. The extent to which usage and call volume may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage and call volume during these periods may adversely affect our growth rate and results, and in turn, the market price of our securities. Historically, we have seen this trend generally reversing in the first quarter of the calendar year with increased mobile and Internet usage and often new budgets at the beginning of the year for many of our customers with fiscal years ending December 31. However, there can be no assurances such seasonal trends will consistently repeat each year. The current business environment and our industry has generally both resulted in, and we may continue to see, many advertisers and reseller partners reducing advertising and marketing services budgets or adjusting such budgets throughout the year, changing marketing strategies or agency affiliations, or advertisers being acquired by parent companies with alternative media initiatives, 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, natural catastrophic events and public health crises, 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.

Furthermore, our business is subject to the impact of natural catastrophic events such as earthquakes, floods or power outages, political crises such as terrorism or war, and public health crises, such as disease outbreaks, epidemics, or pandemics on the U.S. and global economies, our markets and business locations. Currently, the rapid spread of coronavirus (COVID-19) globally has resulted in increased travel restrictions and disruption and shutdown of businesses. Our headquarters are located in King County, Washington, which has seen a higher initial infection and fatality rate from the recent outbreak of the COVID-19 virus than the rest of the United States. We may experience impacts from quarantines, market downturns and changes in customer behavior related to pandemic fears and impacts on our workforce if the virus becomes widespread in any of our markets. In addition, one or more of our customers, distribution partners, reseller partners and agencies, service providers or suppliers may experience financial distress, file for bankruptcy protection, go out of business, or suffer disruptions in their business due to the coronavirus outbreak. The extent to which the coronavirus impacts our results will depend on future developments, which are highly uncertain and will include emerging information concerning the severity of the coronavirus and the

actions taken by governments and private businesses to attempt to contain the coronavirus, but is likely to result in a material adverse impact on our business, results of operations and financial condition at least for the near term.

We depend on the growth of mobile technologies, the Internet and the 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 mobile technologies and the Internet as an effective commercial and business medium. Factors which could reduce the widespread use of mobile technologies (including mobile devices, in particular) and the Internet include:

- possible disruptions or other damage to the mobile, Internet or telecommunications infrastructure and networks;
- failure of the individual networking infrastructures of our advertisers, reseller partners, and distribution partners to alleviate potential overloading and delayed response times;
- a decision by advertisers and consumers to spend more of their marketing dollars on offline programs;
- increased governmental regulation and taxation; and
- actual or perceived lack of data security or privacy protection.

In particular, concerns over the security of online transactions and the privacy of users, including the risk of identity theft, may inhibit the growth of Internet usage, including 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 mobile and 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.

Regulation of E-Commerce, Online Tracking, Online Data Collection, and Use of the Internet may adversely affect our business and operating results.

Mobile and online search, e-commerce and related businesses face uncertainty related to new or future government regulation at the federal, state, and international levels regarding e-commerce, online tracking, online data collection, and use of the Internet. Due to the rapid growth and widespread use of the Internet, state and federal legislatures (both domestically and abroad) 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 companies that engage in e-commerce, or otherwise interact with the Internet 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, data security, 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, state, and foreign laws that may affect 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 online collection of personal information about children and the use of that information. The Federal Trade Commission (FTC) has the authority to impose fines and penalties upon website operators and online service providers that do not comply with the law. We do not currently offer any websites or online services “directed to children,” nor do we knowingly collect personal information from children.
- The Protection of Children from Sexual Predators Act requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances.
- The Controlling the Assault of Non-Solicited Pornography and Marketing (CAN SPAM) Act of 2003 establishes requirements for those who send commercial e-mails, spells out penalties for entities that transmit noncompliant commercial e-mail and/or whose products are advertised in noncompliant commercial e-mail and gives consumers the right to opt-out of receiving commercial e-mails. The majority of the states also have adopted similar statutes governing the transmission of commercial e-mail. The FTC and the states, as applicable, are authorized to enforce the CAN-SPAM Act and the state-specific statutes, respectively. CAN-SPAM gives the Department of Justice the authority to enforce its criminal sanctions. Other federal and state agencies can enforce the law against organizations under their jurisdiction, and companies that provide Internet access may sue violators as well.
- The Electronic Communications Privacy Act prevents private entities from disclosing Internet subscriber records and the contents of electronic communications, subject to certain exceptions.
- The Computer Fraud and Abuse Act and other federal and state laws protect computer users from unauthorized computer access/hacking, and other actions by third parties which may be viewed as a violation of privacy. Courts may apply each of these laws in unintended and unexpected ways. As a company that provides services over the Internet as well as call recording and call tracking services, we may be subject to an action brought under any of these or future laws.
- Among the types of legislation currently being considered at the federal and state levels are consumer laws regulating for the use of certain types of software applications or downloads and the use of “cookies.” These proposed laws are intended to target specific types of software applications often referred to as “spyware,” “invasiveware” or “adware,” and may also cover certain applications currently used in the online advertising industry to serve and distribute advertisements. In addition, the FTC has sought inquiry regarding the implementation of a “do-not-track” requirement. Federal legislation is also expected to be introduced that would regulate “online behavioral advertising” practices. If passed, these laws would impose new obligations for companies that use such software applications or technologies. At least one state already has enacted a law, which went into effect in January 2014, regarding online tracking.

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 countries may enact laws that 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, Data Protection Directives (and similar legislation in other countries where we may have operations), and the recently enacted EU General Data Protection Regulation which went into full effect in May 2018 and which supersedes the current EU data protection regulation, which is directly applicable to all member states and which is expected to result in substantial changes to our compliance obligations and a significant increase in potential administrative fines for non-compliance. 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.

In addition, the potential regulation of new and emerging technologies, such as artificial intelligence (“AI”) which we are increasingly building into many of our new offerings, may result in increased compliance costs and risks. Any additional costs and penalties associated with increased compliance and risk reduction could make certain offerings less profitable or increase the difficulty of bringing certain offerings to market.

Federal, state, and foreign regulation of telecommunications may adversely affect our business and operating results.

We provide information and analytics services to certain advertisers and reseller partners that may include information services. In connection therewith, we obtain 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, our call recording and pay-for-call services may directly subject us 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 (“TCPA”) which limits the use of autodialing systems, artificial or prerecorded voice messages, SMS text messages and fax machines, the Telemarketing Sales Rule, the Telemarketing Consumer Fraud and Abuse Prevention Act, the Telephone Robocall Abuse Criminal Enforcement and Deterrence Act and the rules and regulations promulgated thereunder. In recent years, the TCPA has become a fertile source for both individual and class action lawsuits and regulatory actions. Specifically, the TCPA restricts telemarketing and the use of automatic SMS text messages without proper consent. The scope and interpretation of the laws that are or may be applicable to the delivery of text messages are continuously evolving and developing. If we do not comply with these laws or regulations or if we become liable

under these laws or regulations due to the failure of our customers or distribution partners to comply with these laws by obtaining proper consent, we could face liability.

- 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 we undertake material modifications to our platforms and processes to permit wiretapping and other access for law enforcement personnel.
- Under various Orders of the Federal Communications Commission, we 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 of our subsidiaries, and may impose additional taxes, fees or telecommunications surcharges on the provision of our services which we may not be able to pass through to customers.
- Our international operations may expose us to telecommunications regulations and data and privacy regulations (including the EU General Data Protection Regulation) in the countries where we are operating and these regulations could negatively affect the viability of our business in those regions.
- We expect the trend towards enhanced regulation and personal rights applicable to the collection, use, storage and sharing of personal information to continue. For example, California recently enacted the California Consumer Privacy Act (“CCPA”), which took effect on January 1, 2020. The CCPA established requirements for businesses and grants individuals with rights similar to those contained in the GDPR. The CCPA gives California residents expanded rights to access and delete their personal information, opt out of certain personal information sharing, and receive detailed information about how their personal information is used. Like the GDPR, the CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. Some observers have noted that the CCPA could mark the beginning of a trend toward more stringent state privacy legislation in the U.S., which could adversely affect our business.

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.

The federal government has placed a ban for now on state and local governments’ imposition of new taxes on Internet access or electronic commerce transactions through the Internet Tax Freedom Act. The proposed Marketplace Fairness Act, if enacted into law, would allow states to require online and other out of state merchants to collect and remit sales and use tax on products and services that they may sell. Additionally, a June 2018 U.S. Supreme Court decision held that states can require remote sellers to collect state and local sales taxes. 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. Furthermore, from time to time, various state, federal and other jurisdictional tax authorities undertake reviews of us and our filings. In evaluating the exposure associated with various tax filing positions, we may on occasion accrue charges for probable exposures. We cannot predict the outcome of any of these reviews.

Risks Relating to Ownership of our Class B 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 and has at times declined significantly. 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:

- actual or anticipated fluctuations in our operating results;
- 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;
- loss of senior management or other key personnel;
- registration of additional shares of Class B common stock in connection with acquisitions;
- 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;
- significant volatility in the market price and trading volume of technology companies in general and of companies in our industry in particular;
- changes in growth or earnings estimates or recommendations by analysts;
- changes in the market valuations of similar companies;
- changes in our industry and the overall economic environment, including but not limited to uncertainty attributable to public health crises, such as disease outbreaks, epidemics or pandemics;
- 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 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, as amended (the “Exchange Act”);
- short sales, hedging and other derivative transactions on shares of our Class B common stock; and
- an adverse impact on us from any of the other risks cited in this Risk Factors section.

In addition, the stock market in general, and the NASDAQ Global Select Market and the market for mobile and online commerce companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the listed companies. These broad market and industry factors may seriously harm the market price of our Class B common stock, regardless of our operating performance. In the past, following periods of volatility in the market, securities class action litigation has often been instituted against these companies.

Litigation against us, whether or not judgment is entered against us, could result in substantial costs and potentially economic loss, and a diversion of our management’s attention and resources, any of which could seriously harm our financial condition. Additionally, there can be no assurance that an active trading market of our Class B common stock will be sustained.

If securities analysts do not continue to publish research or publish negative research about our business, our stock price and trading volume could decline.

The trading market for our Class B common stock depends in part on the research and reports that securities analysts publish about us or our business. If one or more of the analysts who covers us downgrades our stock or publishes negative research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, we could lose visibility in the market for our stock and demand for our stock could decrease, which could cause our stock price or trading volume to decline.

Our founder controls 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, 2019, Russell C. Horowitz, our founder, beneficially owned 100% of the outstanding shares of our Class A common stock, which shares represented 75% of the 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 our founder. 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 our founder has a controlling interest, he 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, our founder 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 our founder 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 our founder 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, as amended, 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, as amended:

- 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 pay dividends on our Class B common stock in the future.

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 declared and paid a special dividend in the last quarter of 2017 and the first quarter of 2018, respectively. Special dividends generally result in a reduction in stock price with the dividend distributed. In addition, we paid a quarterly dividend on our Class B common stock from November 2006 through May 2015. Our ability to pay dividends is dependent upon a variety of factors, including our financial results, liquidity and financial condition and capital requirements. There is no assurance that we will pay dividends in the future. Furthermore, the payment by us of special dividends or dividends in general may have an impact on our stock price.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Our headquarters are located in Seattle, Washington and consist of approximately 36,000 square feet of leased office space. We lease additional office space in Wichita, Kansas and Mississauga, Canada. 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 products and services.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Our Class B common stock has been traded on the NASDAQ Global Select Market under the symbol “MCHX” since March 31, 2004 when we completed our initial public offering at a price of \$6.50 per share. Prior to that time, there was no public market for our Class B common stock. The following table sets forth, for the periods indicated, the high and low closing sales prices for Marchex’s Class B common stock as reported on the NASDAQ Global Select Market:

	High	Low
Year ended December 31, 2018		
First Quarter	\$ 3.55	\$ 2.64
Second Quarter	\$ 3.18	\$ 2.58
Third Quarter	\$ 3.10	\$ 2.66
Fourth Quarter	\$ 3.11	\$ 2.56
Year ended December 31, 2019		
First Quarter	\$ 4.90	\$ 2.82
Second Quarter	\$ 5.42	\$ 4.10
Third Quarter	\$ 4.97	\$ 3.14
Fourth Quarter	\$ 4.15	\$ 3.03

Holders

As of March 10, 2020, there was 1 stockholder of record of our Class A common stock and there were approximately 40 stockholders of record of our Class B common stock, respectively. Since many of our shares of Class B common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Dividends

In December 2017, the Company declared a special cash dividend in the amount of \$0.50 per share on its Class A and B common stock and recorded a Dividends Payable of \$21.9 million in its consolidated balance sheet at December 31, 2017. The Company paid the total dividend of \$21.9 million in the first quarter of 2018. Our ability to pay dividends is dependent upon a variety of factors, including our financial results, liquidity and financial condition and capital requirements. There is no assurance that we will pay dividends in the future.

Issuer Purchases of Equity Securities

In November 2014, we established a 2014 share repurchase program, which supersedes and replaces any prior repurchase programs, and authorized the Company to repurchase up to 3 million shares in the aggregate of the Company’s Class B common stock. 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. During the fourth quarter of 2019, we did not have any share repurchases and 1,319,128 Class B common shares remain available for purchase under the plan.

ITEM 6. SELECTED FINANCIAL DATA.

As a smaller reporting company under SEC Regulations, we are not required to provide this information.

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

Marchex is a conversational analytics and solutions company that helps businesses connect, drive, measure, convert callers into customers, and connects the voice of the customer to your business. We deliver data insights and incorporate artificial intelligence (AI)-powered functionality that drives insights and solutions to help companies find, engage and support their customers across voice and text-based communication channels.

We provide products and services for businesses of all sizes that depend on calls, texts and other communication channels to drive sales. Our analytics products can provide actionable intelligence on the major media channels advertisers use to acquire customers over the phone.

Our primary product offerings are:

- **Marchex Call Analytics.** Marchex Call Analytics is an analytics platform for enterprises that depend on inbound phone calls to drive sales, appointments and reservations. Marketers can use this platform to understand which marketing channels, advertisements, search keywords, or other digital marketing advertising formats are driving calls to their business, allowing them to optimize their advertising expenditures across media channels. Marchex Call Analytics also includes technology that can extract data and insights about what is happening during a call and measures the outcome of calls and return on investment. The platform also includes technology that can block robocalls, telemarketers and spam calls to help save businesses time and expense. Marchex Call Analytics data can integrate directly into third-party marketer workflows such as Salesforce, Eloqua, Adobe, Google Search, Kenshoo, Marin Software, Facebook and Instagram, in addition to other marketing dashboards and tools. Advertisers pay us a fee for each call/text or call/text related data element they receive from calls or texts, including call-based ads we distribute through our sources of call distribution or for each phone number tracked based on pre-negotiated rates.
- **Marchex Speech Analytics.** Marchex Speech Analytics is a product that can enable actionable insights for enterprise, mid-sized and small businesses, helping them understand what is happening on inbound calls from consumers to their business. Marchex Speech Analytics leverages our proprietary and patent pending speech recognition technology. Marchex Speech Analytics incorporates machine and deep learning algorithms and AI-powered conversation analysis functionality that can give customers strategic, real-time visibility into company performance in customer interactions. Marchex Speech Analytics includes customizable dashboards and visual analytics to make it easier for marketers, salespeople and call center teams to realize actionable insights across a growing amount of call data. According to a February 2018 MarketsandMarkets report, the speech analytics market is expected to grow from \$941 million in 2017 to \$2.2 billion by 2022.
- **Text Analytics and Communications.** With the acquisitions of Sonar Technologies, Inc. ("Sonar") in December 2019 as well as SITA Laboratories, Inc. (d/b/a Callcap) ("Callcap") and Telmetrics, Inc. ("Telmetrics") in November 2018, Marchex enables businesses to send and receive text/SMS messages with customers. In addition, the Company can provide insights for businesses on text and messaging interactions and offer customized text engagement solutions to improve the customer experience and accelerate the sales process. According to a 2018 study by Mobilesquared, there were 1.67 trillion applications to consumer SMS messages globally with the number expected to rise to 2.8 trillion by 2022. According to a 2017 study from Listrak, 75% of consumers prefer offers from businesses delivered via text and business offers delivered via SMS text marketing had a 97% read-rate.

- **Call Monitoring.** Marchex provides businesses the ability to have an unbiased view into every inbound or outbound call, from providing a call recording, to offering services to create customized call performance scorecards, both of which can help businesses learn more about their customers and enhance service quality and customer satisfaction. Through these services, businesses can customize the insights they want in order to improve business practices and to grow faster.
- **Marchex Sales Edge.** Launched in 2019, Marchex Sales Edge incorporates artificial intelligence-based functionality within the product suite that can help enable businesses to understand customer conversations in phone calls and via text, in real-time and at scale, and can help enable businesses to learn how to optimize the sales process in order to take the right actions to win more business. These solutions can arm businesses with the data-driven intelligence they need to deliver on-demand and personalized customer experiences. Marchex Sales Edge products include:
 - **Marchex Sales Edge Rescue.** Marchex Sales Rescue combines Marchex artificial intelligence and machine learning with conversational call monitoring and scoring services and can alert businesses when potential buyers hang up without making an appointment or purchase, or when certain calls did not meet the business' sales or customer service standards. Marchex Sales Rescue can identify in real-time when potential high-value customer prospects engaged in conversations with sales representatives are mishandled in any number of ways, and can give businesses the opportunity to re-engage immediately to capture these potentially lost opportunities, as well as avoid undesired customer experiences. It can give businesses a more complete picture of the in-bound opportunities they are missing, while also measuring the effectiveness and impact of capturing those opportunities through outbound engagement.
 - **Marchex Sales Edge Enterprise.** Marchex Sales Edge Enterprise is a product for corporate managers that can provide conversation performance insights and trends across a brand or network of distributed business locations. The conversational data analyses can provide critical sales insights that can help enterprises boost outcomes across national and regional sales organizations.
 - **Marchex Sales Edge Local.** Marchex Sales Edge Local is expected to be available in the latter half of 2020 and is a product for business location managers that analyze phone conversations. Marchex Sales Edge Local can provide performance insights and prioritize leads using intelligent lead scoring and integrating with existing workflows and tools companies use each day, like Salesforce Sales Cloud CRM. This product can help companies grow their business at each location by prioritizing their best leads, while arming them with tools they can use to train their sales teams
- **Marchex Omnichannel Analytics Cloud.** Marchex Omnichannel Analytics Cloud leverages the call analytics platform and can provide a single source to marketers to see which media channels are driving phone calls across search, display, video, site, and social media. Our Omnichannel Analytics Cloud products include:
 - **Marchex Search Analytics.** Marchex Search Analytics is a product for search marketers that can drive phone calls from search campaigns. Marchex Search Analytics can attribute inbound phone calls made from paid search ads and landing pages to a keyword. The platform can deliver this data as well as data about call outcomes directly into search management platforms like Google Search and Kenshoo. According to a June 2016 BIA Kelsey report, mobile calls represent 60% of inbound calls to businesses in 2016. This equals 85 billion global mobile calls annually, a figure that is projected to grow to 169 billion calls by 2020.

- **Marchex Display and Video Analytics.** Marchex Display and Video Analytics is a product for marketers that buy digital display advertising. Marchex Display and Video Analytics can measure the influence that display advertising has on inbound phone calls so that marketers can better attribute their return on advertising spend for inbound phone calls and delivers this data to marketers in a reporting dashboard. According to a January 2019 eMarketer report, US advertisers are expected to spend nearly \$68 billion in 2019 on display advertising.
- **Marchex Site Analytics.** Marchex Site Analytics is a product for marketers that can drive phone calls from websites. Marchex Site Analytics can identify which websites are driving calls and provides actionable insights to help marketers understand the customer’s journey to their website, what drove them to call, and can enable marketers to better optimize both online and offline.
- **Marchex Social Analytics.** Marchex Social Analytics is a product for marketers that buy social media advertising. Marchex Social Analytics can help measure the influence social media advertising has on inbound calls from platforms like Facebook or Instagram so marketers can see which posts are working. According to Statista, global social media is forecasted to grow from \$76 billion in 2018 to \$125 billion by 2023.
- **Marchex Audience Targeting.** Marchex Audience Targeting leverages call data to automatically build unique audience segments for display and social media platforms. Marchex Audience Targeting can help marketers target high intent audiences with their display campaigns and fine-tune campaigns to specific audience segments that are most likely to convert to customers, or can find new segments and opportunities that have not been targeted before.
- **Marchex Call Marketplace.** Marchex Call Marketplace is a mobile advertising network for businesses that depend on inbound phone calls to drive sales. We offer advertisers ad placements across numerous mobile and online media sources to deliver qualified calls to their businesses. It leverages analytics for tracking, reporting and optimization. Advertisers are charged on a pay-per-call or cost per action basis.
- **Local Leads.** Our local leads platform is a white-labeled, full service advertising solution for small business resellers, such as Yellow Pages providers and vertical marketing service providers, to sell call advertising, search marketing and other lead generation products through their existing sales channels to their small business advertisers. These calls and leads are then fulfilled by us across our distribution network, including mobile sources, and search engines. Reseller partners and publishers generally pay us account fees and agency fees for our products in the form of a percentage of the cost of every click or call delivered to their advertisers. Under one of our contracts with Thryv, Inc. (formerly known as Dex Media, Inc., successor in interest to Yellowpages.com LLC) (“Thryv”), we generate revenues from our local leads platform. This local leads platform agreement, which will expire on December 31, 2020, provides Thryv flexibility to migrate active accounts to itself or a third-party provider prior to the end of an advertiser contract and provides Thryv with certain termination rights upon four months notice. We also have separate pay-for-call services and distribution partner agreements with Thryv and separate reseller partner agreements with Thryv for additional pay-for-call and separate call analytics services. Thryv is our largest reseller partner and was responsible for 23% and 26% of our total revenues for the years ended December 31, 2018 and 2019 respectively.

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

We have offices in Seattle and Bellevue, Washington, New York, New York, Wichita, Kansas, and Mississauga, Canada.

Acquisitions

Telmetrics Acquisition:

In November 2018, the Company acquired 100% of the outstanding stock of Telmetrics, an enterprise call and text tracking and analytics company for consideration of \$10.1 million in cash at closing and up to \$3.0 million in cash based upon the achievement of certain financial growth targets over two corresponding 12 month periods following the closing.

Callcap Acquisition:

In November 2018, the Company acquired 100% of the outstanding stock of Callcap, a call monitoring and Analytics solutions company based in Kansas for total consideration of approximately \$35.0 million, consisting approximately \$25.0 million in cash at closing and approximately \$10.0 million in value of shares of Marchex's Class B common stock ("Common Stock"), calculated based on a 10 day trailing average of Marchex's Common Stock daily closing price on Nasdaq prior to the closing, with 25% of such shares of Common Stock to be issued on the first, second, third and fourth annual anniversary of the closing, respectively. The number of shares to be issued is fixed at the transaction date and their issuance is not contingent.

Sonar Acquisition:

In December 2019, we acquired 100% of the outstanding stock of Sonar Technologies, Inc. ("Sonar") for consideration of approximately \$8.5 million in cash at closing and approximately 1.0 million shares of Class B common stock to be issued over the three-year period following the acquisition date, with the timing of issuance subject to certain conditions and with any shares not previously issued to be issued on the fifth anniversary of the acquisition date. We also agreed to issue up to approximately 389,000 shares of Class B common stock based upon the achievement of certain financial target goals by Sonar in 2020. To the extent earned and payable, one half of such shares will be issued upon the first anniversary of the closing and one half will be issued upon the second anniversary of the closing, with the timing of issuance subject to certain conditions and with any shares not previously issued to be issued on the fifth anniversary of the acquisition date.

The Company accounted for the Telmetrics, Callcap, and Sonar acquisitions as business combinations. See *Note 8. Acquisitions* of the Notes to Consolidated Financial Statements for further discussion.

Consolidated Statements of Operations

All significant inter-company transactions and balances within Marchex have been eliminated in consolidation.

Presentation of Financial Reporting Periods

The comparative periods presented are for the years ended December 31, 2018 and 2019.

Revenue

We generate the majority of our revenues from advertisers for our performance based advertising services, which include the use of our call analytics technology and pay-for-call advertising products and services. Our revenue also consists of payments from our reseller partners for use of our local leads platform and marketing services, which they offer to their small business customers, as well as payments from advertisers for cost per action services. Customers typically receive the benefit of our services as they are performed and substantially all of our revenue is recognized over time as the services are performed.

Performance-Based Advertising and Other Services

Our performance-based advertising services, which includes our call analytics technology and call marketplace services, amounted to greater than 80% of revenues in all periods presented. In addition, we generate revenue through our local leads platform, which enables partner resellers to sell call advertising and/or search

marketing products, and campaign management services. These secondary sources accounted for less than 20% of our revenues in all periods presented. We have no barter transactions.

Our call analytics technology platform provides data and insights that can measure the performance of mobile, online and offline advertising for advertisers and small business resellers. We generate revenue from our call analytics technology platform when advertisers pay us a fee for each call/text or call/text related data element they receive from calls or texts including call-based ads we distribute through our sources of call distribution or for each phone number tracked based on a pre-negotiated rate.

Our call marketplace offers advertisers and advertising service providers' ad placements across our distribution network. Advertisers or advertising service providers are charged on a pay-per-call or cost-per-action basis. We generate revenue upon delivery of qualified and reported phone calls to advertisers or advertising service providers' listings. These advertisers and advertising service providers pay us a designated transaction fee for each qualified phone call, which occurs when a user makes a phone call, clicks, or completes a specified action on any of their advertisement listings after it has been placed by us or by our distribution partners. We also generate revenue from cost-per-action, which occurs when a user makes a phone call from our advertiser's listing or is redirected from one of our web sites or a third-party web site in our distribution network to an advertiser web site and completes the specified action. Each qualified phone call or specified action on an advertisement listing represents a completed transaction.

Our local leads platform allows reseller partners to sell call advertising, search marketing, and other lead generation products through their existing sales channels to small business advertisers. We generate revenue from reseller partners utilizing our local leads platform and are paid account fees and/or 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 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 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 owed that occurs subsequent to period ends.

Industry and Market Factors

We enter into agreements with various mobile, online and offline distribution partners to provide distribution for pay-for-call 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 on these listings. The level of phone calls 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 or renew our existing distribution partner agreements and on terms as favorable as current arrangements, 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. 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 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 products and services, the amount these advertisers spend on our products and services, advertiser adoption of new products and services and the amount these advertisers are willing to pay for these new products and services.

We utilize phone numbers as part of our call analytics and pay-for-call services to advertisers, which enables advertisers and other users of our services to help measure the effectiveness of mobile, online, and offline advertising campaigns. If we are not able to secure or retain sufficient phone numbers needed for our services or we are limited in the number of available telecommunication carriers or vendors to provide such phone numbers to us in the event of any industry consolidation or if telecommunication carriers or vendors were to experience system disruptions, our revenue and results of operations may be materially and adversely affected.

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 phone call usage, the number of phone calls or other actions performed by users of our products and services, which will be delivered to our advertisers, and how much advertisers will

spend with us and the amount they are willing to pay for our products and services. It is even more difficult to anticipate the average revenue per phone call or other performance-based actions. It is also difficult to anticipate the impact of worldwide and domestic economic conditions on advertising budgets.

In addition, we believe we will experience seasonality. Our quarterly results have fluctuated in the past and may fluctuate in the future due to seasonal fluctuations in levels of mobile and online usage and seasonal purchasing cycles of many advertisers. Our experience has shown that during the spring and summer months, mobile and Internet usage is lower than during other times of the year and during the latter part of the fourth quarter of the calendar year we generally experience lower call volume and reduced demand for calls from our call advertising customers. The extent to which usage and call volume may decrease during these off-peak periods is difficult to predict. Prolonged or severe decreases in usage and call volume during these periods may adversely affect our growth rate and results and in turn the market price of our securities. Historically, we have seen this trend generally reversing in the first quarter of the calendar year with increased mobile and Internet usage and often new budgets at the beginning of the year for many of our customers with fiscal years ending December 31. However, there can be no assurances such seasonal trends will consistently repeat each year. The current business environment and our industry has generally both resulted in, and we may continue to see, many advertisers and reseller partners reducing advertising and marketing services budgets or adjusting such budgets throughout the year, changing marketing strategies or agency affiliations, or advertisers being acquired by parent companies with alternative media initiatives, which we expect will impact our quarterly results of operations in addition to the typical seasonality seen in our industry.

In addition, the rapid spread of coronavirus (COVID-19) globally has resulted in increased travel restrictions and disruption and shutdown of businesses. Our headquarters are located in King County, Washington, which has seen a higher initial infection and fatality rate from the recent outbreak of the COVID-19 virus than the rest of the United States. We may experience impacts from quarantines, market downturns and changes in customer behavior related to pandemic fears and impacts on our workforce if the virus becomes widespread in any of our markets. In addition, one or more of our customers, distribution partners, reseller partners and agencies, service providers or suppliers may experience financial distress, file for bankruptcy protection, go out of business, or suffer disruptions in their business due to the coronavirus outbreak. The extent to which the coronavirus impacts our results will depend on future developments, which are highly uncertain and will include emerging information concerning the severity of the coronavirus and the actions taken by governments and private businesses to attempt to contain the coronavirus, but is likely to result in a material adverse impact on our business, results of operations and financial condition at least for the near term.

We believe that our future revenue growth will depend on, among other factors, our ability to attract new advertisers, compete effectively, maximize our sales efforts, demonstrate a positive return on investment for advertisers, successfully improve existing products and services, and develop successful new products and services. If we are unable to generate adequate revenue growth and to manage our expenses, we may continue to incur significant losses in the future and may not be able to achieve or maintain profitability.

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;
- telecommunication costs, including the use of phone numbers relating to our call products and services;
- colocation service charges of our network website equipment;
- bandwidth and software license fees;
- network operations;
- serving our search results;
- payroll and related expenses of related personnel;
- fees paid to outside service providers;
- depreciation of our websites, network equipment and software;

- delivering customer service;
- license and content fees;
- amortization of intangible assets;
- maintaining our websites;
- domain name registration renewal fees;
- domain name costs;
- credit card processing fees; and
- stock-based compensation of related personnel.

User Acquisition Costs

For the periods presented the largest component of our service costs consists of user acquisition costs that relate primarily to payments made to distribution partners for access to their mobile, online, offline, or other user traffic. We enter into agreements of varying durations with distribution partners that integrate our services into their web sites, indexes or other sources of user traffic. The primary economic structures of the distribution partner agreements are a variable payment based on a specified percentage of revenue and variable payments based on a specified metric, such as number of paid phone calls or other actions. These variable payments are often subject to minimum payment amounts per phone call or other action. Other payment structures that to a lesser degree exist include fixed payments, based on a guaranteed minimum amount of usage delivered; 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 variable or fixed payments. Agreements with variable payments based on a percentage of revenue, number of paid phone calls, 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. Agreements with fixed payments with minimum guaranteed amounts of usage are expensed at 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.

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 products 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 the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350, *Intangibles – Goodwill and Other*. This statement requires that costs incurred in the preliminary project and post-implementation stages of an internal use software project be expensed as incurred and that certain costs incurred in the application development stage of a project be capitalized.

General and Administrative

General and administrative expenses consist primarily of:

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

Stock-Based Compensation

We measure stock-based compensation cost at the grant date based on the fair value of the award and recognize it as expense over the vesting or service period, as applicable, of the stock-based award using the straight-line method. We account for forfeitures as they occur. Stock-based compensation expense is included in the same lines as compensation paid to the same employees in the consolidated statements of operations.

Amortization of Intangibles from Acquisitions

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

The intangible assets have been identified as:

- customer relationships;
- acquired technology;
- non-competition agreements;
- tradenames.

These assets are amortized over useful lives ranging from 12 to 60 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.

Comparison of the year ended December 31, 2018 (2018) to the year ended December 31, 2019 (2019) and comparison of the year ended December 31, 2017 (2017) to the year ended December 31, 2018 (2018).

Segments

Operating segments are revenue-producing components of the enterprise for which separate financial information is produced internally for the Company's management. For the periods presented, we operated as a single segment.

Revenue

2018 to 2019

Revenue increased 24% from \$85.3 million in 2018 to \$106.1 million in 2019. A significant majority of the increase in revenue was from our call analytics services due to contribution from Telmetrics and Callcap, which we acquired in November 2018, and to a lesser extent, due to an increase in pay-for-call service revenues from reseller partners like Thryv and revenues from customers like State Farm. These increases were offset in part due to fewer accounts and local leads platform revenues from reseller partners like Thryv.

We expect our revenues to be lower in the near term compared to the most recent quarters due in part to decreases in certain large advertiser budgets, reduced demand for calls from several of our pay-for-call service customers, and due to fewer small business accounts on our local leads platform, offset in part by additional revenues due to our recent acquisition of Sonar in December 2019. In addition, we expect that future revenues from our customers will be lower than in our most recent quarters and that future new revenues from our prospective customers will be lower than anticipated as a result of the business disruption caused by the evolving coronavirus situation at least for the near term and potentially beyond. We expect that in the first half of 2020 the disruption to our customers and our prospective customers will cause delays in the sales process, delays in signing new customers, a decrease in business from existing customers, and also delays in launching pilots and tests and new customer programs that were previously planned, resulting in lower future revenues from our customers as well as lower than anticipated future new revenues from our prospective customers. We also expect in 2020 that financial difficulties and business interruptions caused by the coronavirus impact will result in some cases in payment delays, and an impairment of our customers' ability to make payments, which we expect will further reduce our revenues from recent quarterly results.

Under one of our contracts with Thryv, Inc. (formerly known as Dex Media, Inc., successor in interest to Yellowpages.com LLC) ("Thryv"), we generate revenues from our local leads platform to sell call advertising and/or search marketing packages through their existing sales channels, which are then fulfilled by us across our distribution network. We are paid account fees and agency fees for our products in the form of a percentage of the cost of every call or click delivered to their advertisers. We also have a separate pay-for-call relationship with Thryv, through which we charge an agreed-upon price for qualified calls or leads from our network. These agreements will expire on December 31, 2020 and we expect the remaining active accounts to be migrated or to wind down at that time which will result in reduced revenue and profitability contribution. The local leads platform agreement provides Thryv flexibility to migrate active accounts to itself or a third-party provider prior to the end of an advertiser contract and provides Thryv with certain termination rights upon four-months prior notice. We expect Thryv may decrease the number of new advertiser accounts with us and may elect to migrate certain active accounts to itself or a third-party provider which would result in fewer small business accounts and related revenues, as well as reduced contribution and profitability. Thryv's small business account base utilizing our platform has declined, and to the extent declines occur in their business, their small business accounts may spend fewer dollars on our pay-for-call services. We expect Thryv and local leads platform advertisers in future periods will comprise lower total revenues compared to previous periods and Thryv as a percentage of our total revenue may also comprise a smaller percentage of our total revenue. We have separate partner reseller agreements with Thryv for pay-for-call and call analytics services. It is undetermined whether Thryv's use of these service offerings will continue prospectively at or near current levels or at all. Thryv is our largest reseller partner and was responsible for 23% and 26% of our total revenues for the years ended December 31, 2018 and 2019, respectively. We also have a separate distribution partner agreement with Thryv. It is possible that changes to our relationship and agreements with Thryv may occur and result in a significant reduction in the paid account fees, agency fees, call analytics revenues, and per call or lead fees that we receive from Thryv. There can be no assurance that our business with Thryv in the future will continue at or near current revenue and contribution levels, that we will be able to renew and extend the contracts set to

expire on December 31, 2020, and if renewed, the contracts may be on less favorable terms to us, any of which could have a material adverse effect on our future operating results.

We also have agreements with advertising agencies, such as Resolution Media and OMD Digital, who act on an advertiser's behalf and may represent more than one advertiser that utilizes our products and services. Our primary agreement with Resolution Media is for pay-for-call services whereby we charge an agreed-upon price for qualified calls or leads from our network and call analytic services. Resolution Media accounted for 14% and 13% of total revenues for the years ended December 31, 2018 and 2019, respectively, of which the majority related to a single advertiser, State Farm. State Farm, who utilizes our services through Resolution Media and OMD Digital, accounted for 19% and 15% of total revenues for years ended December 31, 2018 and 2019, respectively. Resolution Media and OMD Digital place insertion orders for our services on behalf of State Farm for campaigns which are generally for a set period of time and/or budget level. We expect in the near to intermediate term campaign spend levels related to State Farm to be lower compared to recent quarters.

We have revenue concentrations with other certain large customers including reseller partners and advertising agencies. Many of these customers are not subject to long term contracts with us or may have contracts with near term expiration dates and are able to reduce or cease advertising spend at any time and for any reason. Reseller partners purchase various advertising and marketing services from us, as well as provide us with a large number of advertisers. A loss of reseller partners or a decrease in revenue from these resellers could have a material adverse effect on our results of operations and financial condition. In some cases, we engage with advertisers through advertising agencies, who act on behalf of the advertisers. Advertising agencies, such as Resolution Media and OMD Digital, may place insertion orders with us on behalf of advertisers (including State Farm) for particular advertising campaigns, which are typically short term and subject to a specified dollar amount, and are not obligated to commit beyond the campaign governed by a particular insertion order and may also cancel the campaign prior to completion. Advertising agencies also have relationships with many different providers, each of whom may be running portions of the advertising campaign. We have call advertising agreements with certain large customers which provide flexibility around financial commitments, termination rights, indemnification, and security obligations. Our large customers may vary spend levels and there can be no assurances that our large customers will continue to spend at levels similar to prior quarters. If any of our largest customers are acquired, such acquisition may impact its advertising spending or budget with us, including due to rebranding, change in advertising agency, or change in media tactics. A significant reduction in advertising spending or budgets 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 have a material adverse effect on our future operating results.

Our ability to maintain and grow our revenues will depend in part on maintaining and increasing the number and volume of transactions with advertisers and advertising services providers and maintaining and increasing the number of phone calls, texts and the other actions performed by users of our services through our distribution partners. We believe this is dependent in part on delivering quality traffic that ultimately results in purchases or conversions as well as providing through our call analytics quality data and insights that can measure the performance of advertising spend for our advertisers and advertising service providers. A significant amount of our 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 web sites, other targeted Web-based content and offline sources. We generate revenue upon delivery of qualified and reported phone calls/texts 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. We also generate revenue from cost-per-action services, which occurs when a user makes a phone call/text from our advertiser's listing or is redirected from one of our web sites or a third-party web site in our distribution network to an advertiser web site and completes the specified action. Other revenues include our local leads platform for resellers, and campaign management services. Companies distributing advertising through mobile and internet-based sources have experienced, and are likely to continue to experience consolidation. If we do not add new distribution partners or renew our existing distribution partner agreements and on terms as favorable as current arrangements, 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. We utilize phone numbers as part of our call analytics and pay-for-call services to advertisers, which enables advertisers and other users of our services to help measure the effectiveness of mobile, online, and offline advertising campaigns. If we are not able to secure or retain sufficient phone numbers needed for our services or we are limited in the number of available telecommunication carriers or vendors to provide such

phone numbers to us in the event of any industry consolidation or if telecommunication carriers or vendors were to experience system disruptions, our revenue and results of operations may be materially and adversely affected. In addition, 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 call volumes could materially and adversely affect our revenue and results of operations.

We believe that our future revenue growth will depend on, among other factors, our ability to attract new advertisers, compete effectively, maximize our sales efforts, demonstrate a positive return on investment for advertisers, successfully improve existing products and services, and develop successful new products and services. If we are unable to generate adequate revenue growth and to manage our expenses, we may continue to incur significant losses in the future and may not be able to achieve or maintain profitability. For additional discussion of trends and other factors in our business, refer to Industry and Market Factors in Item 7 of this Annual Report on Form 10-K.

Expenses

Expenses were as follows (in thousands):

	Years ended December 31,			
	2018	% of revenue	2019	% of revenue
Service costs	\$ 47,804	56%	\$ 56,537	53%
Sales and marketing	13,788	16%	16,651	15%
Product development	15,423	18%	20,127	19%
General and administrative	10,881	13%	13,516	13%
Amortization of intangible assets from acquisitions	781	1%	6,263	6%
Acquisition related costs (benefit)	462	1%	(447)	0%
	<u>\$ 89,139</u>	<u>105%</u>	<u>\$ 112,647</u>	<u>106%</u>

We record stock-based compensation expense under the fair value method. We account for forfeitures as they occur, whereas we utilized estimated forfeitures in prior periods. Stock-based compensation expense has been included in the same lines as compensation paid to the same employees in the consolidated statements of operations. Stock-based compensation expense was included in the following operating expense categories as follows (in thousands):

	Years ended December 31,	
	2018	2019
Service costs	\$ 435	\$ 141
Sales and marketing	563	716
Product development	356	290
General and administrative	1,686	2,000
Total stock-based compensation	<u>\$ 3,040</u>	<u>\$ 3,147</u>

See Note 5 (b). *Stock Option Plan* of the Notes to Consolidated Financial Statements, as well as our Critical Accounting Policies for additional information about stock-based compensation.

Service Costs. Service costs increased 18% from \$47.8 million in 2018 to \$56.5 million in 2019. The net increase in dollars was primarily due to an aggregate increase in distribution partner payments and communication and network costs totaling \$9.3 million, offset in part by an aggregate decrease in personnel costs, outside service provider costs, and stock-based compensation costs and totaling \$585,000. As a percentage of revenue, service costs were 56% and 53% for 2018 and 2019, respectively. The decrease as a percentage of revenue in 2019 was primarily the result of an increase in our call analytics platform revenues, due in part to our acquisitions of Telmetrics and Callcap in November in 2018, offset in part by our local leads platform revenues comprising a lower percentage of revenue compared to the 2018 period. Our local leads platform and call analytics platform revenues have a lower service cost 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, 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 other sources of revenues, such as our local leads platform have no corresponding distribution partner payments and accordingly have a lower service cost as a percentage of revenue relative to our overall service cost percentage. In addition, advertisers from whom we generate a portion of our call advertising revenues through our local leads platform generally have lower service costs as a percentage of revenue relative to our overall service cost percentage. To the extent our local leads platform makes up a smaller percentage of our future operations, we expect that service costs will increase as a percentage of revenue. We expect in the near and intermediate term for service costs as a percentage of revenue to be relatively stable to modestly higher relative to the most recent quarterly periods. We expect in the near and intermediate term for service costs as a percentage of revenue to be modestly higher relative to the most recent quarterly periods primarily due to our plan to make a strategic expense investment in 2020 to address various infrastructure initiatives, including consolidating infrastructure and data centers. We also expect service costs in absolute dollars to be higher in the near and intermediate term compared to the most recent quarters due to our acquisition of Sonar and to increase over the longer term in connection with any revenue increase and expansion in our communication and network infrastructure.

Sales and Marketing. Sales and marketing expenses increased 21% from \$13.8 million in 2018 to \$16.7 million in 2019. The increase in dollars was primarily attributable to an aggregate increase in personnel costs, stock-based compensation costs, outside marketing activities, and travel related costs totaling \$3.1 million, offset in part by an aggregate decrease in outside service provider costs totaling \$304,000. The increase in personnel costs and stock-based compensation costs was primarily the result of the acquisitions of Telmetrics and Callcap in November 2018. As a percentage of revenue, sales and marketing expenses were relatively flat at 16% and 15% for 2018 and 2019, respectively.

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 and intermediate term to be modestly higher in absolute dollars relative to the most recent quarterly periods due to our recent acquisition of Sonar and due to our additions of personnel to help advance our selling and marketing efforts. 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. In addition, we anticipate that our sales and marketing expenses will be adversely impacted by the evolving coronavirus situation at least for the near term.

Product Development. Product development expenses increased 30% from \$15.4 million in 2018 to \$20.1 million in 2019. As a percentage of revenue, product development expenses were relatively flat at 18% and 19% for the years ended December 31, 2018 and 2019, respectively. The net increase in dollars was primarily due to an aggregate increase in personnel and outside service provider costs, facility related costs, and travel related costs totaling \$4.7 million. The increase in personnel costs and facility related costs was primarily the result of the acquisitions of Telmetrics and Callcap in November 2018.

We expect product development expenditures to be modestly higher in the near and intermediate term in absolute dollars relative to our most recent quarterly periods due to our recent acquisitions of Sonar. In the longer term, to the extent our revenues increase, 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. In addition, we anticipate that our product development expenses will be adversely impacted by the evolving coronavirus situation at least for the near term.

General and Administrative. General and administrative expenses increased 24% from \$10.9 million in 2018 to \$13.5 million in 2019. As a percentage of revenue, general and administrative expenses were 13% and 13% for 2018 and 2019, respectively. The net increase in dollars and percentage of revenue were primarily due to an aggregate increase in personnel and outside service provider costs, stock-based compensation, and facility related costs totaling \$2.7 million. The increase in personnel costs and facility related costs was primarily the result of the acquisitions of Telmetrics and Callcap in November 2018.

We expect that our general and administrative expenses will be modestly higher in the near and intermediate term due to our recent acquisition of Sonar and 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 compensation is impacted by market conditions relating to our stock price. In addition, we anticipate that our general and administrative expenses will be adversely impacted by the evolving coronavirus situation at least for the near term.

Amortization of Intangible Assets from Acquisitions. Intangible amortization expenses was \$781,000 and \$6.3 million in 2018 and 2019, respectively, and was primarily associated with amortization of intangible assets acquired in the Telmetrics and Callcap acquisitions in November 2018. During 2018 and 2019, the amortization of intangibles related to service costs, sales and marketing and general and administrative expenses.

Our purchase accounting resulted in all assets and liabilities from our acquisitions being recorded at their estimated fair values on their respective acquisition dates. All goodwill, identifiable intangible assets and assumed liabilities resulting from our acquisitions have been recorded in our financial statements. The identified intangible assets acquired in the Telmetrics, Callcap, and Sonar acquisitions are \$26.5 million in aggregate as of December 31, 2019, and are being amortized on a straight-line basis over a range of useful lives of 12 to 60 months. Events and circumstances considered in determining whether the carrying value of amortizable intangible assets and goodwill may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; or a significant decline in our stock price and/or market capitalization for a sustained period of time.

No impairment of our intangible assets has been identified in 2019. 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 its goodwill and intangible assets for impairment and may recognize an additional impairment loss to the extent that the carrying amount exceeds such assets' fair values.

Acquisition-related Costs (Benefit). The change in the acquisition-related costs (benefit) from \$462,000 in 2018 to (\$447,000) in 2019 was primarily due to a \$941,000 adjustment in 2019 to the estimated fair value of our contingent consideration liability related to our acquisition of Telmetrics in November 2018, offset by accretion of interest expense, and professional and related fees primarily associated with our acquisitions of Telmetrics and Callcap in November 2018 and of Sonar in December 2019.

Income Taxes. The income tax benefit for the year ended December 31, 2019 was \$1.7 million and was primarily related to the release of valuation allowance from newly recognized deferred tax liabilities related to the acquisition of Sonar in December 2019 as well as the reversal of a deferred tax liability from intangible asset basis differences in association with the Telmetrics acquisition. In 2019, the effective tax rate differed from the expected tax rate of 21% for 2019 due to our full valuation allowance and to a lesser extent due to state income taxes, non-deductible stock-based compensation related to incentive stock options recorded under the fair-value method, federal research and development credits, and other non-deductible amounts. We recognized approximately \$444,000 of federal and foreign research and experimental credits for 2019.

The income tax benefit from continuing operations was \$156,000 in 2018 and was primarily related the release of valuation allowance on certain foreign deferred tax assets due to our acquisition of Telmetrics in November 2018. In 2018, the effective tax rate differed from the expected tax rate of 21% due to a full valuation allowance and to a lesser extent due to state income taxes, non-deductible stock-based compensation related to incentive stock options recorded under the fair-value method, federal research and development credits, and other non-deductible amounts. We recognized approximately \$13,000 of federal research and experimental credits for 2018. At December 31, 2019, based upon both positive and negative evidence available, we determined that it is not more likely than not that our deferred tax assets (excluding certain insignificant Canadian deferred tax assets) of \$36.2 million will be realized and accordingly, we have recorded 100% valuation allowance of \$36.2 million against these deferred tax assets. This compares to a valuation allowance of \$35.1 million at December 31, 2018. The 2019 valuation allowance includes a partial release as a result of newly recognized deferred tax liabilities related to the acquisition of Sonar in December 2019. In assessing the realizability of deferred tax assets, we considered whether it is more likely than not that some or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences are deductible. We considered the future reversal of deferred tax liabilities, carryback potential, projected taxable income, and tax planning strategies as well as its history of taxable income or losses in the relevant jurisdictions in making this assessment. We have incurred federal taxable losses in 2018 and 2019.

Net Loss. Net loss was \$2.7 million in 2018 compared to net loss of \$4.0 million in 2019. The increase in loss was primarily attributable to higher amortization of intangible assets from acquisitions in 2019, with lower corresponding costs in the 2018 period, partially offset by higher revenues and lower operating costs in the 2019 period in addition to a \$941,000 adjustment during 2019 to the estimated fair value of our contingent consideration liability related to our recent acquisition of Telmetrics in November 2018.

Liquidity and Capital Resources

As of December 31, 2018, and 2019, we had cash and cash equivalents of \$45.2 million and \$42.5 million, respectively. As of December 31, 2019, we had current and long-term contractual obligations of \$15.1 million, of which \$9.6 million is for rent under our facility operating leases, up to \$1.8 million for contingent cash earnout payments related to the Telmetrics acquisition, and a contingent earnout arrangement related to the Sonar acquisition that requires us to pay up to a maximum 389,000 shares of Class B common stock, valued at approximately \$1.4 million as of the acquisition date. The contingent earnout arrangement related to the Sonar acquisition requires us to pay up to a maximum of approximately 389,000 shares of Class B common stock, to be paid to the former shareholders of Sonar based upon the achievement of targeted financial growth targets during periods commencing from the acquisition date and concluding in 2020.

Cash provided by operating activities primarily consists of net loss adjusted for certain non-cash items such as amortization and depreciation, stock-based compensation, allowance for doubtful accounts and advertiser credits, and changes in working capital.

Cash provided by operating activities for the year ended December 31, 2019 of approximately \$5.1 million consisted primarily of a net loss of \$4.0 million adjusted for non-cash items of \$8.9 million, which included depreciation and amortization, allowance for doubtful accounts and advertiser credits, deferred income taxes, stock-based compensation, and an adjustment to the estimated fair value of our contingent consideration liability related to our recent acquisition of Telmetrics in November 2018, and approximately \$209,000 provided by working capital and other activities. Cash provided by operating activities for the year ended December 31, 2018 of approximately \$5.1 million consisted primarily of a net loss of \$2.7 million adjusted for non-cash items of \$5.9 million, which included depreciation and amortization, accretion of interest expense, allowance for doubtful accounts and advertiser credits, stock-based compensation, and approximately \$1.9 million provided by working capital and other activities.

With respect to a significant portion of our call-based advertising services, the amount payable to our distribution partners will be calculated at the end of a calendar month, with a payment period following the delivery of the phone calls or other actions. These services constituted a significant portion of revenues for the years ended December 31, 2018 and 2019. We generally receive payment from advertisers in close proximity to the timing of the corresponding payments to the distribution partners who provide calls, other delivery actions, or placement for the listings. In certain cases, payments to distribution partners are paid in advance or are fixed in advance based on a guaranteed minimum amount of usage delivered. We have no corresponding payments to distribution partners related to our local leads platform.

Nearly all of our reseller partner agreements, including our agreements with resellers such as Thryv, CDK Global, hibu Inc., and Web.com, are billed on a monthly basis following the month of our phone call or other action delivery. This payment structure results in our advancement of monies to the distribution partners who have provided the corresponding calls, other delivery actions, or placements of the listings. For these services, reseller partner payments are generally received two to four weeks or longer following payment to the distribution partners. We also have payment agreements with advertising agencies such as Resolution Media and OMD Digital whereby we receive payment after the agency's advertiser pays the agency, which is generally between 60 and 120 days or longer, following the delivery of services. We expect that in the future periods, if the amounts from our reseller partner and agency agreements account for a greater percentage of our operating activity, working capital requirements will increase as a result.

For the year ended and as of December 31, 2019, amounts from these partners and agencies totaled 47% of revenue and \$9.9 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 and advertising agencies. A single advertiser, State Farm, who represented the majority of the revenue and accounts receivable generated by Resolution Media and OMD Digital, accounted for 15% of total revenues for the year ended December 31, 2019 and 41% of accounts receivable as of December 31, 2019. We expect in the near to intermediate term campaign spend levels related to State Farm to be lower compared to recent quarters, which will result in lower total revenues and

contribution. Net accounts receivable balances outstanding as of December 31, 2019 from Thryv, Inc. (formerly known as Dex Media, Inc., successor in interest to Yellowpages.com LLC) (“Thryv”) totaled \$1.8 million.

We have revenue concentrations with certain large advertisers including reseller partners and advertising agencies. Many of these customers are not subject to long term contracts with us or have contracts with near term expiration dates and are generally able to reduce or cease advertising spending at any time and for any reason. Reseller partners purchase various advertising and marketing services, as well as provide us with a large number of advertisers. This could have a material adverse effect on our results of operations and financial condition. There can be no assurances that these partners or other advertisers will not experience financial difficulty, curtail operations, reduce or eliminate spend budgets, change marketing strategies or agency affiliations, be acquired by parent companies with alternative media tactics, delay payments or otherwise forfeit balances owed. In addition, one or more of our customers may experience financial distress, file for bankruptcy protection, go out of business, or suffer disruptions in their business due to the coronavirus outbreak which could delay or jeopardize the collection of accounts receivable and have a material adverse effect on our results of operations and liquidity. We expect that, in the near term and potentially beyond, our revenues will be lower than in recent periods as a result of business disruption to our customers and prospects caused by the evolving coronavirus situation. Further, we expect in 2020 and potentially beyond, that in some cases financial difficulties and business interruptions caused by the coronavirus outbreak will result in payment delays and an impairment of our customers to make payments. In turn, this will also cause our revenues to be lower than current levels if customers are unable to procure our services at the same volumes as previously, which we expect will be the case for several of our customers. It will also adversely impact our collectability associated with our accounts receivable balances and result in higher bad debt expenses. In addition, we expect it will reduce our cash flows from the levels we have experienced in recent periods. This expected adverse impact on our operating cash flows will correspondingly reduce our liquidity.

Cash used in investing activities for the year ended December 31, 2019 of \$9.7 million was primarily attributable to cash paid for our acquisition of Sonar in 2019, net of cash acquired, and purchases of property and equipment. In December 2019, we acquired Sonar for approximately \$13.3 million, including cash of approximately \$8.5 million and approximately 1.0 million shares of Class B common stock to be issued over the three-year period following the acquisition date, with the timing of issuance subject to certain conditions and with any shares not previously issued to be issued on the fifth anniversary of the acquisition date. The Company also agreed to issue up to approximately 389,000 shares of Class B common stock based upon the achievement of certain financial target goals by Sonar in 2020. To the extent earned and payable, one half of such shares will be issued upon the first anniversary of the closing and one half will be issued upon the second anniversary of the closing, with the timing of issuance subject to certain conditions and with any shares not previously issued to be issued on the fifth anniversary of the acquisition date. Cash used in investing activities for the year ended December 31, 2018 of \$36.6 million was primarily attributable to cash paid for our acquisition of Telmetrics and Callcap in 2018, net of cash acquired. In November 2018, we acquired Telmetrics for \$10.1 million in cash which was paid at closing and with potential future earnout consideration payments in aggregate of up to \$3.0 million in cash on the 12th and 24th month anniversaries of the closing. Also, in November 2018, we acquired Callcap for approximately \$35.0 million, including cash of approximately \$25.0 million and 3.4 million shares of Class B common stock valued at approximately \$10.0 million, to be issued over the four-year period following the acquisition date.

We expect property and equipment purchases in the near and intermediate term to be modestly higher compared to our most recent periods. We expect any increase to our operations to have a corresponding increase in expenditures for our systems and personnel. We expect our expenditures for product development initiatives and internally developed software will be modestly higher in the near and intermediate term due to the acquisition of Sonar and increase in the longer term in absolute dollars with any acceleration in development activities and as we increase the number of personnel and consultants to enhance our service offerings. In the intermediate to long term, we also expect to increase the number of personnel supporting our sales, marketing and related growth initiatives. We plan to make a strategic expense investment in 2020 to address various infrastructure initiatives, including consolidating infrastructure and data centers.

Cash provided by financing activities for the year ended December 31, 2019 of approximately \$1.9 million was primarily attributable to proceeds from exercises of stock options, issuance and vesting of restricted stock and employee stock purchase plan. Cash provided by financing activities for the year ended December 31, 2018 of approximately \$27.4 million was primarily attributable to common stock dividend payments.

We anticipate that we will need to invest working capital towards the development of our overall operations and to fund any losses from operations, and we expect that capital expenditures may increase in future periods, particularly with any increase in our operating activities. We may also pursue a significant number of acquisitions. As a result, we could experience a reduction of our cash balances or the incurrence of debt. We committed \$2.5 million in funding for a strategic technology business initiative. We expect to fulfill this commitment during 2020.

In the second quarter of 2018, we provided a bank letter of credit to the lessor of our office space in Seattle, Washington in the amount of \$575,000, which we fully collateralized with a certificate of deposit to the issuing bank. The letter of credit was reduced by \$100,000 in April 2019 and is expected to be reduced by such amount annually. The letter of credit was collateralized by a \$575,000 certificate of deposit, which was restricted in use and was included in other assets in the Company's consolidated balance sheet as of December 31, 2018. On April 2, 2019, the Company was no longer required to collateralize the letter of credit and the certificate of deposit matured and was closed.

In November 2014, our board of directors authorized a new share repurchase program (the "2014 Repurchase Program") which supersedes and replaces any prior repurchase programs. Under the 2014 Repurchase Program, we are authorized to repurchase up to 3 million shares of our Class B common stock in the aggregate through open market and privately negotiated transactions, at such times and in such amounts as we deem appropriate. Repurchases may also be made under a Rule 10b5-1 plan, which would permit shares to be repurchased when we might otherwise be precluded from doing so under insider trading laws. 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. The 2014 Repurchase Program does not have an expiration date and may be expanded, limited or terminated at any time without prior notice. We have made no repurchases under the 2014 Repurchase Program for the years ended December 31, 2018 and 2019. In May 2018, the Company repurchased approximately 2.3 million shares of its Class B common stock for approximately \$5.7 million from a former member of the Company's board of directors. The Company's board of directors approved the repurchase transaction and the Company retired these shares in the second quarter of 2018.

In December 2017, we declared a special cash dividend in the amount of \$0.50 per share on our Class A and B common stock and recorded a Dividends Payable of \$21.9 million in our consolidated balance sheet at December 31, 2017. We paid the total dividend of \$21.9 million in the first quarter of 2018. Our ability to pay dividends is dependent upon a variety of factors, including our financial results, liquidity and financial condition and capital requirements. There is no assurance that we will pay dividends in the future.

Based on our operating plans we believe that our resources will be sufficient to fund our operations, including any investments in strategic initiatives, 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. There can be no assurance that, if we needed additional funds, financing arrangements would be available in amounts or on terms acceptable to us, if at all. 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;
- Stock-based compensation;

- Allowance for doubtful accounts and advertiser credits;
- Goodwill and intangible assets;
- Provision for income taxes; and
- Leases.

Revenue

We generate the majority of our revenues from advertisers for our performance based advertising services, which include the use of our call analytics technology and pay-for-call advertising products and services. Our revenue also consists of payments from our reseller partners for use of our local leads platform and marketing services, which they offer to their small business customers as well as payments from advertisers for cost per action services. Customers typically receive the benefit of our services as they are performed and substantially all of our revenue is recognized over time as the services are performed. We adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, (ASC 606) on January 1, 2018 using the modified retrospective approach for all contracts not completed as of the date of initial application, referred to as open contracts. Therefore, the comparative information has not been adjusted and continues to be reported under ASC 605.

We generate revenue from our call analytics technology platform when advertisers pay us a fee for each call/text or call/text related data element they receive from calls or texts including call-based ads we distribute through our sources of call distribution or for each phone number tracked based on a pre-negotiated rate. For our call marketplace services, advertisers or advertising service providers are charged on a pay-for-call or cost-per-action basis. For pay-for-call advertising, we generate revenue upon delivery of qualified and reported phone calls or other action to our advertisers or advertising service providers' listing, which occurs when a mobile, online or offline user makes a phone call, clicks, or completes a specified action on any of their advertisements after it has been placed by us or by our distribution partners. Each qualified phone call or specified action on an advertisement listing represents a completed transaction. For cost-per-action services, we generate revenue when a user makes a phone call from our advertiser's listing or 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 utilizing our local leads platform and are paid account fees and/or 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 engage the advertisers and are the principal for the transaction, 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 its distribution network and we act as the principal and recognize revenue for these fees under the gross revenue recognition method.

We have entered into agreements with various third-party distribution partners in order to expand our distribution network, which includes third-party mobile and online search engines and applications, mobile carriers, directories, destination sites, shopping engines, Internet domains or web sites, other targeted web-based content, and offline sources. These partners provide distribution for pay-for-call advertisement listings, which contain all tracking numbers and/or URL strings. We generally pay distribution partners based on a percentage of revenue or a fixed amount per phone call or other action on these listings. We act as the principal, and we are responsible for providing customer and administrative services to the advertiser. 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 or reseller contracts with advertisers under the net revenue recognition method. Under these specific agreements, we purchase listings on behalf of advertisers from our distribution network. 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 we, in certain instances, are 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.

For arrangements that include multiple performance obligations, the transaction price from the arrangement is allocated to each respective performance obligation based on its relative standalone selling price and recognized when revenue recognition criteria for each performance obligation are met. The standalone selling price for each performance obligation is established based on the sales price at which we would sell a promised good or service separately to a customer or the estimated standalone selling price.

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 owed that occurs subsequent to period ends.

Stock-Based Compensation

FASB ASC Topic 718, *Compensation – Stock Compensation* (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 be based on estimated fair values. We account for forfeitures as they occur. We measure stock-based compensation cost at the grant date based on the fair value of the award and recognize it as expense over the vesting or service period, as applicable, of the stock-based award using the straight-line method.

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.

Although the fair value of stock-based awards is determined in accordance with ASC 718, *Compensation – Stock Compensation* the assumptions used in calculating fair value of stock-based awards and the use of the Black-Scholes option pricing model is 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 5(b). Stock Option Plan* in the Notes to 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.

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 the FASB ASC Topic 350, “Intangibles - Goodwill and Other” (ASC 350) whereby assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead test for impairment at least annually. ASC 350 also requires that intangible assets with definite useful lives be amortized over the respective estimated lives to their estimated residual values, and reviewed for impairment in accordance with ASC 360.

Goodwill is tested annually on November 30 for impairment and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. The provisions of the accounting standard for

goodwill and other intangible assets allow us to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Events and circumstances considered in determining whether the carrying value of goodwill may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; and significant changes in competition and market dynamics. These estimates are inherently uncertain and can be affected by numerous factors, including changes in economic, industry or market conditions, changes in business operations, a loss of a significant customer, changes in competition or changes in the share price of common stock and market capitalization. If our stock price were to trade below book value per share for an extended period of time and/or we 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 cannot accurately predict the amount and timing of any impairment of goodwill. Should the value of goodwill become impaired, we would record the appropriate charge, which could have an adverse effect on our financial condition and results of operations.

The current business environment is subject to evolving market conditions and requires significant management judgment to interpret the potential impact to our assumptions. To the extent that changes in the current business environment impact our ability to achieve levels of forecasted operating results and cash flows, if our stock price were to trade below book value per share for an extended period of time and/or should other events occur indicating the remaining carrying value of our assets might be impaired, we would test our goodwill for impairment and may recognize an impairment loss to the extent that the carrying amount exceeds such asset's fair value. In November 2019, the Company performed an impairment assessment of goodwill noting there were no triggering events that would require further impairment analysis over the goodwill recorded on its balance sheet as of December 31, 2019. During the first calendar quarter of 2020, the Company's stock price has been impacted by volatility in the U.S. financial markets as a result of the rapid spread of the coronavirus globally which has resulted in increased travel restrictions and disruption and shutdown of businesses. At various points in time, the Company's stock price approached or dropped below the then book value. We are experiencing and expect to further experience impacts from quarantines, market downturns and changes in customer behavior related to pandemic fears and impacts on our workforce and may experience greater impact if the coronavirus becomes widespread in any of our markets. In addition, one or more of our customers, distribution partners, reseller partners and agencies, service providers or suppliers have already and may experience or already has experienced financial distress, file for bankruptcy protection, go out of business, or suffer disruptions in their business due to the coronavirus outbreak. The extent to which the coronavirus impacts our results will depend on future developments, which are highly uncertain and will include emerging information concerning the severity of the coronavirus and the actions taken by governments and private businesses to attempt to contain the coronavirus, but is likely to result in a material adverse impact on our business, results of operations and financial condition at least for the near term. 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, if the Company's stock price were to trade below book value per share for an extended period of time and/or should other events occur indicating the remaining carrying value of our assets might be impaired, the Company would test its goodwill for impairment and may recognize an impairment loss to the extent that the carrying amount exceeds such asset's fair value. The Company will continue to monitor its financial performance, stock price and other factors in order to determine if there are any indicators of impairment prior to its annual impairment evaluation in November 2020. As a result, we may record an impairment loss in the near or intermediate term, which could have an adverse effect on our financial condition and results of operations.

We will continue to monitor our financial performance, stock price and other factors in order to determine if there are any other indicators of impairment prior to our annual impairment evaluation in November 2020.

Any future impairment charges could have a material adverse effect on our financial results.

Provision for Income Taxes

We are subject to income taxes in the U.S. Significant judgment is required in evaluating our uncertain tax positions and determining our 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. Uncertain tax positions as of December 31, 2018 and 2019 amounted to \$1.2 million and \$1.3 million, respectively.

We determined that it is not more likely than not that our deferred tax assets (excluding certain insignificant Canadian deferred tax assets) will be realized and accordingly recorded 100% valuation allowance against these deferred tax assets as of December 31, 2018 and 2019. The 2019 valuation allowance includes a partial release as a result of newly recognized deferred tax liabilities related to the acquisition of Sonar in December 2019. In assessing whether it is more likely than not that our deferred tax assets will be realized, factors considered included: historical taxable income, historical trends related to advertiser usage rates, projected revenues and expenses, macroeconomic conditions, issues facing the industry, existing contracts, our ability to project future results and any appreciation of its other assets. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences are deductible. We considered the future reversal of deferred tax liabilities, carryback potential, projected taxable income, and tax planning strategies as well as its history of taxable income or losses in the relevant jurisdictions in making this assessment. Based on the level of historical taxable losses and the uncertainty of projections for future taxable income over the periods for which the deferred tax assets are deductible, we concluded that it is not more likely than not that the gross deferred tax assets will be realized.

As of December 31, 2019, our federal NOL carryforwards were approximately \$92.0 million for income tax purposes, and federal research and development credit carryforwards of \$5.4 million for income tax purposes, which are potentially available to offset future tax liabilities. As of December 31, 2019, our state, city, and other foreign jurisdiction NOL carryforwards were approximately \$88.0 million, which begin to expire in 2024.

In addition, at December 31, 2018 and 2019, we have certain federal NOL carryforwards of approximately \$1.7 million, a portion of which expired 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 related to these specific NOL carryforwards, and that the utilization is limited such that substantially all of these NOL carryforwards will likely never be utilized. Accordingly, we have not included these federal NOL carryforwards in its 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.

Leases

We adopted FASB ASC Topic 842, "Leases" (ASC 842) on January 1, 2019 and used the effective date of January 1, 2019 as its date of initial application. Consequently, financial information was not be updated and the disclosures required under the new standard are not be provided for dates and periods before January 1, 2019. The new standard provides a number of optional practical expedients in transition. We elected the 'package of practical expedients', which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. Therefore, the comparative information has not been adjusted and continues to be reported under FASB ASC Topic 840, "Leases" (ASC 842) ASC 840.

We determine if an arrangement is a lease at inception. This determination generally depends on whether the arrangement conveys to us the right to control the use of an explicitly or implicitly identified fixed asset for a period of time in exchange for consideration. Control of an underlying asset is conveyed to us if we obtain the rights to direct the use of and to obtain substantially all of the economic benefits from using the underlying asset. We have lease agreements which include lease components. We do not have lease agreements which include non-lease components or variable lease components.

Operating leases are included in right of use assets (“ROU”) and lease liabilities on our consolidated balance sheets. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Operating lease payments are recognized as lease expense on a straight-line basis over the lease term. We primarily leases office facilities which are classified as operating leases. We do not have finance leases. ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. As an implicit interest rate is not readily determinable in our leases, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The lease term for all of our leases includes the non-cancellable period of the lease. Options for lease renewals have been excluded from the lease term (and lease liability) for our leases as the reasonably certain threshold is not met. Lease payments included in the measurement of the lease liability are comprised of fixed payments.

The new standard also provides practical expedients for an entity’s ongoing accounting. We elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, we did not recognize ROU assets or lease liabilities, and this included not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. We also elected the practical expedient to not separate lease and non-lease components for all of its leases.

Recent Accounting Pronouncement Not Yet Effective

For discussion regarding recent accounting pronouncements not yet effective, see *Note 1(r). Description of Business and Summary – Recent Accounting Pronouncement Not Yet Effective* of the notes to our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

As a smaller reporting company under SEC Regulations, we are not required to provide this information.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Marchex, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Marchex, Inc. and subsidiaries (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019 and 2018, and the consolidated results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2020 expressed an unqualified opinion on the Company’s internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for leases in 2019.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Moss Adams LLP

Seattle, Washington
March 13, 2020

We have served as the Company’s auditor since 2017.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Marchex, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Marchex, Inc. and subsidiaries (the “Company”) internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, stockholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”) and our report dated March 13, 2020, expressed an unqualified opinion on those consolidated financial statements (and included an explanatory paragraph relating to a change in method of accounting for leases in 2019).

Basis for Opinion

The Company’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 included in Item 9A. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

As discussed in Management’s Report on Internal Control Over Financial Reporting, in December 2019, the Company acquired Sonar Technologies, Inc. (“Sonar Technologies”). For the purposes of assessing internal control over financial reporting, management excluded Sonar Technologies, whose financial statements constitute approximately 1% of the Company’s consolidated total assets (excluding \$14 million of goodwill and intangible assets, which were integrated into the Company’s control environment) and less than 1% of consolidated revenue as of and for the year ended December 31, 2019. Accordingly, our audit did not include the internal control over financial reporting of Sonar Technologies.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ Moss Adams LLP

Seattle, Washington
March 13, 2020

MARCHEX, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except per share amounts)

	As of December 31,	
	2018	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 45,230	\$ 42,526
Accounts receivable, net	16,198	17,809
Prepaid expenses and other current assets	2,657	2,084
Total current assets	64,085	62,419
Property and equipment, net	2,921	3,028
Other assets, net	917	335
Right-of-use lease asset	—	5,801
Goodwill	24,442	33,433
Intangible assets from acquisitions, net	20,697	19,485
Total assets	\$ 113,062	\$ 124,501
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 5,968	\$ 7,082
Accrued expenses and other current liabilities	5,818	6,679
Current portion of acquisition-related liabilities	1,204	1,111
Deferred revenue and deposits	1,782	1,173
Lease liability current	—	1,500
Total current liabilities	14,772	17,545
Other non-current liabilities	1,287	—
Deferred tax liabilities	1,531	981
Lease liability non-current	—	5,664
Non-current portion of acquisition-related liabilities	446	473
Total liabilities	18,036	24,663
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value. Authorized 137,500 shares;		
Class A: 12,500 shares authorized; 5,056 shares issued and outstanding, at December 31, 2018; and 4,661 shares issued and outstanding at December 31, 2019		
	53	49
Class B: 125,000 shares authorized; 36,965 shares issued and outstanding at December 31, 2018, including 574 shares of restricted stock; and 39,610 shares issued and outstanding at December 31, 2019, including 1,030 shares of restricted stock		
	370	396
Additional paid-in capital	350,801	359,633
Accumulated deficit	(256,198)	(260,240)
Total stockholders' equity	95,026	99,838
Total liabilities and stockholders' equity	\$ 113,062	\$ 124,501

See accompanying Notes to Consolidated Financial Statements.

MARCHEX, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(in thousands, except per share amounts)

	Years ended December 31,	
	2018	2019
Revenue	\$ 85,251	\$ 106,132
Expenses:		
Service costs (1)	47,804	56,537
Sales and marketing (1)	13,788	16,651
Product development (1)	15,423	20,127
General and administrative (1)	10,881	13,516
Amortization of intangible assets from acquisitions (2)	781	6,263
Acquisition related costs (benefit)	462	(447)
Total operating expenses	<u>89,139</u>	<u>112,647</u>
Loss from operations	<u>(3,888)</u>	<u>(6,515)</u>
Interest income and other, net	1,054	752
Loss before provision for income taxes	(2,834)	(5,763)
Income tax benefit	(156)	(1,721)
Net loss applicable to common stockholders	<u>\$ (2,678)</u>	<u>\$ (4,042)</u>
Basic and diluted net loss per Class A share applicable to common stockholders	<u>\$ (0.06)</u>	<u>\$ (0.09)</u>
Basic and diluted net loss per Class B share applicable to common stockholders	<u>\$ (0.06)</u>	<u>\$ (0.09)</u>
Shares used to calculate basic net loss per share applicable to common stockholders:		
Class A	5,056	4,793
Class B	37,390	40,667
Shares used to calculate diluted net loss per share applicable to common stockholders:		
Class A	5,056	4,793
Class B	42,446	45,460
(1) Excludes amortization of intangibles from acquisitions		
(2) Components of amortization of intangibles from acquisitions:		
Service costs	\$ 302	\$ 2,331
Sales and marketing	295	2,497
General and administrative	184	1,435
Total	<u>\$ 781</u>	<u>\$ 6,263</u>

See accompanying Notes to Consolidated Financial Statements.

MARCHEX, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
(in thousands)

	Class A common stock		Class B common stock		Treasury stock		Additional paid-in capital	Accumulated deficit	Total stockholders' equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balances at December 31, 2017	5,056	\$ 53	38,736	\$ 387	—	—	\$ 343,268	\$ (253,709)	\$ 89,999
Issuance of common stock upon exercise of options, issuance and vesting of restricted stock and under employee stock purchase plan, net	—	—	563	6	—	—	130	—	136
Stock-based compensation from options and restricted stock, net of forfeitures	—	—	—	—	—	—	3,040	—	3,040
Repurchase of Class B common stock	—	—	—	—	(2,334)	(5,673)	—	—	(5,673)
Retirement of treasury stock	—	—	(2,334)	(23)	2,334	5,673	(5,650)	—	—
Deferred issuance of Class B common stock in connection with acquisition	—	—	—	—	—	—	10,017	—	10,017
Cumulative effect of a change in accounting principle related to revenue recognition	—	—	—	—	—	—	—	189	189
Net loss	—	—	—	—	—	—	—	(2,678)	(2,678)
Common stock cash dividends	—	—	—	—	—	—	(4)	—	(4)
Balances at December 31, 2018	5,056	\$ 53	36,965	\$ 370	—	—	\$ 350,801	\$ (256,198)	95,026
Issuance of common stock upon exercise of options, issuance and vesting of restricted stock and under employee stock purchase plan, net	—	—	1,491	15	(90)	(1)	1,890	—	1,904
Stock-based compensation from options and restricted stock, net of forfeitures	—	—	—	—	—	—	3,147	—	3,147
Retirement of treasury stock	—	—	(90)	(1)	90	1	—	—	—
Deferred issuance of Class B common stock in connection with acquisition	—	—	—	—	—	—	3,803	—	3,803
Issuance of Class B common stock in connection with prior deferred issuance from acquisition	—	—	849	8	—	—	(8)	—	—
Conversion of Class A common stock to Class B common stock	(395)	(4)	395	4	—	—	—	—	—
Net loss	—	—	—	—	—	—	—	(4,042)	(4,042)
Balances at December 31, 2019	4,661	\$ 49	39,610	\$ 396	—	—	\$ 359,633	\$ (260,240)	\$ 99,838

See accompanying Notes to Consolidated Financial Statements.

MARCHEX, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(in thousands)

	Years ended December 31,	
	2018	2019
Cash flows from operating activities:		
Net loss	\$ (2,678)	\$ (4,042)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization and depreciation	2,598	8,167
Acquisition-related costs (benefit)	50	(1,082)
Allowance for doubtful accounts and advertiser credits	399	428
Deferred income taxes	(185)	(1,733)
Stock-based compensation	3,040	3,147
Change in certain assets and liabilities:		
Accounts receivable, net	254	(1,910)
Prepaid expenses, other current assets, and other assets	76	1,007
Accounts payable	618	1,149
Accrued expenses and other current liabilities	(211)	807
Deferred revenue and deposits	1,087	(724)
Other non-current liabilities	3	(120)
Net cash provided by operating activities	5,051	5,094
Cash flows from investing activities:		
Purchases of property and equipment	(1,651)	(1,673)
Purchases of intangible assets and changes in other non-current assets	(577)	(89)
Cash paid for acquisitions, net of cash acquired	(34,335)	(7,921)
Net cash used in investing activities	(36,563)	(9,683)
Cash flows from financing activities:		
Repurchase of Class B common stock for treasury stock	(5,673)	—
Common stock dividends payments	(21,911)	—
Proceeds from exercises of stock options, issuance and vesting of restricted stock and employee stock purchase plan, net	136	1,885
Net cash provided by (used in) financing activities	(27,448)	1,885
Net decrease in cash and cash equivalents	(58,960)	(2,704)
Cash and cash equivalents at beginning of period	104,190	45,230
Cash and cash equivalents at end of period	\$ 45,230	\$ 42,526
Supplemental disclosure of cash flow information:		
Cash received (paid) during the period for income taxes, net of refunds	\$ (49)	\$ 31
Cash received during the period for interest, net	1,074	779
Cash paid for operating leases	1,405	1,693
Supplemental disclosure of non-cash investing and financing activities:		
Deferred issuance of Class B common stock in connection with acquisition	\$ 10,017	\$ 3,803
Issuance of deferred Class B common stock in connection with prior deferred issuance from acquisition	—	8
Leasehold improvement incentive recorded in other current/non-current assets and other non-current liabilities	113	—
Property and equipment acquired in accounts payable and accrued expenses	33	45
Acquisition-related liabilities not paid	1,509	1,016
Retirement of treasury stock	5,650	—

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 analytics company that helps businesses connect, drive, measure, and convert callers into customers. The Company provides products and services for businesses of all sizes that depend on consumer phone calls or texts to drive sales. The Company’s analytics technology can facilitate call quality and texting, analyze calls and measure the outcomes of calls. The Company also delivers performance-based, pay-for-call advertising across numerous mobile and online publishers to connect consumers with businesses over the phone.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated in consolidation. Certain reclassifications have been made to the consolidated financial statements in the prior periods to conform to the current period presentation.

Acquisitions

In November 2018, the Company acquired Telmetrics Inc. (“Telmetrics”), an enterprise call and text tracking and analytics company, and SITA Laboratories, Inc. (d/b/a Callcap) (“Callcap”), a call monitoring and analytics solutions company. In December 2019, the Company acquired Sonar Technologies, Inc. (“Sonar”), an enterprise text and messaging sales engagement and analytics company. See *Note 8. Acquisitions* of the Notes to Consolidated Financial Statements for further discussion.

(b) Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. Cash equivalents consist primarily of money market funds.

(c) Fair Value of Financial Instruments

The Company had the following financial instruments as of December 31, 2018 and 2019: cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities. The carrying value of these financial instruments approximates their fair value based on the liquidity of these financial instruments and their short-term nature. Further, these financial instruments are considered at Level 1 fair value with observable inputs that reflect quoted prices for identical assets or liabilities in active markets. The following table provides information about the fair value of our cash and cash equivalents balance as of December 31, 2018 and 2019 (in thousands):

	At December 31,	
	2018	2019
Level 1 Assets:		
Cash	\$ 44,593	\$ 15,258
Money market funds	637	27,268
Total cash and cash equivalents	\$ 45,230	\$ 42,526

In addition, the Company has acquisition-related liabilities which are recorded at fair value. The fair value was estimated by applying the income approach, which is based on significant inputs that are not observable in the market (Level 3 inputs), such as the discount rate and the probability of meeting targeted financial goals. See *Note 9. Acquisitions* of the Notes to Consolidated Financial Statements for further discussion.

Assets, liabilities and operations of foreign subsidiaries are recorded based on the functional currency of the entity. For a majority of our foreign operations, the functional currency is the U.S. dollar. Assets and liabilities denominated in other than the functional currency are remeasured each month with the remeasurement gain or loss recorded in other income and expense in the Consolidated Statements of Operations.

(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 collectability. The Company reviews the allowance for collectability 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 accounts activity for the periods indicated is as follows (in thousands):

	<u>Balance at beginning of period</u>	<u>Charged to costs and expenses</u>	<u>Write-offs, net of recoveries</u>	<u>Balance at end of period</u>
December 31, 2018	626	45	23	648
December 31, 2019	648	22	198	472

Allowance for Advertiser Credits

The allowance for advertiser credits is the Company's best estimate of the amount of expected future reductions in advertisers' payment obligations related to delivered services. The Company determines the allowance for advertiser credits and adjustments based on analysis of historical credits.

The allowance for advertiser credits activity for the periods indicated is as follows (in thousands):

	<u>Balance at beginning of period</u>	<u>Additions charged against revenue</u>	<u>Credits processed and other (1)</u>	<u>Balance at end of period</u>
December 31, 2018	613	352	394	571
December 31, 2019	571	405	826	150

(1) In connection with the adoption of ASC 606 on January 1, 2018, the Company reclassified \$305,000 of customer liabilities to other current liabilities in the consolidated balance sheet.

(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 generally ranging from five 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.

Goodwill acquired in a purchase business combination is not amortized, but instead tested for impairment at least annually, and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. As of the year ended December 31, 2018 and 2019, the Company had \$24.4 million and \$33.4 million, respectively, of goodwill on its balance sheet. See *Note 11. Goodwill* of the Notes to Consolidated Financial Statements for further discussion.

(g) Impairment or Disposal of Long-Lived Assets

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

(h) Revenue Recognition

The Company generates the majority of its revenues from advertisers for its performance based advertising services, which include the use of its call analytics technology and pay-for-call advertising products and services. The Company's revenue also consists of payments from its reseller partners for use of its local leads platform and marketing services, which they offer to their small business customers. Customers typically receive the benefit of the Company's services as they are performed and substantially all the Company's revenue is recognized over time as the services are performed.

The Company adopted FASB ASC Topic 606, *Revenue from Contracts with Customers*, (ASC 606) on January 1, 2018 using the modified retrospective approach for all contracts not completed as of the date of initial application, referred to as open contracts. Therefore, the comparative information has not been adjusted and continues to be reported under ASC 605. Under ASC 606, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. The Company measures revenue based on the consideration specified in the customer arrangement, and revenue is recognized when the performance obligations in the customer arrangement are satisfied. A performance obligation is a promise in a contract to transfer a distinct service or product to the customer. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when or as the customer receives the benefit of the performance obligation.

The primary impact upon adoption of the standard relates to the deferral (i.e. capitalization) of incremental contract acquisition costs which are recorded as other non-current assets in the balance sheet and the recognition (i.e. amortization) of them in sales and marketing expenses in the statements of operations over the term of the initial contract and anticipated renewal contracts to which the costs relate. The Company recognized a \$189,000 decrease to accumulated deficit as of January 1, 2018 for the cumulative impact of adoption of the amended guidance associated with the incremental contract acquisition costs on open contracts that were capitalized. The impact of the adoption of ASC 606 on net loss applicable to common stockholders for the year ended December 31, 2018 and on the unaudited consolidated balance sheet at December 31, 2018 was not significant.

The Company's call analytics technology platform provides data and insights that can measure the performance of mobile, online and offline advertising for advertisers and small business resellers. The Company generates revenue from the Company's call analytics technology platform when advertisers pay the Company a fee for each call/text or call/text related data element they receive from calls or texts including call-based ads the Company distributes through its sources of call distribution or for each phone number tracked based on a pre-negotiated rate. Revenue is recognized as services are provided over time, which is generally measured by the delivery of each call/text or call/text related data element or each phone number tracked.

The Company's call marketplace offers advertisers and advertising service providers' ad placements across the Company's distribution network. Advertisers or advertising service providers are charged on a pay-per-call or cost-per-action basis. The Company generates revenue upon delivery of qualified and reported phone calls to advertisers or advertising service providers' listings. These advertisers and advertising service providers pay the Company a designated transaction fee for each qualified phone call, which occurs when a user makes a phone call, clicks, or completes a specified action on any of their advertisement listings after it has been placed by the Company or by the Company's distribution partners. The Company also generates revenue from cost-per-action services, which occurs when a user makes a phone call from the Company's advertiser's listing or is redirected from one of the Company's web sites or a third-party web site in the Company's distribution network to an advertiser web site and completes the specified action. Each qualified phone call or specified action on a listing represents a completed transaction. Revenue is recognized as services are provided upon the delivery of a qualified phone call or completed

action. The Company's distribution network is primarily comprised of third party mobile and online search engines and applications, mobile carriers, directories, destination sites, shopping engines, Internet domains or web sites, other targeted Web-based content, and offline sources. The Company enters into agreements with these third-party distribution partners to provide distribution for pay-for-call advertisement listings, which contain call tracking numbers and/or URL strings. The Company generally pays distribution partners based on a percentage of revenue or a fixed amount per phone call or other actions on these listings. The Company acts as the principal with the advertiser for revenue call transactions, and is responsible for the fulfillment of services. The Company recognizes revenue for these fees under the gross revenue recognition method.

The Company's local leads platform allows reseller partners to sell call advertising, search marketing, and other lead generation products through their existing sales channels to small business advertisers. The Company generates revenue from reseller partners utilizing the Company's local leads platform and is paid account fees and/or agency fees for the Company's products in the form of a percentage of the cost of every call or click delivered to advertisers. Revenue is recognized over time as services are provided. The reseller partners engage the advertisers and are the principal for the transaction, and the Company, in certain instances, is only financially liable to the publishers in the Company's capacity as a collection agency for the amount collected from the advertisers. The Company recognizes revenue for these fees under the net revenue recognition method. In limited arrangements resellers pay the Company a fee for fulfilling an advertiser's campaign in its distribution network and the Company acts as the principal and recognizes revenue for these fees under the gross revenue recognition method.

For the year ended December 31, 2019, revenues disaggregated by service type were \$102.0 million for performance based advertising services and \$4.1 million for local leads services.

The majority of the Company's customers are invoiced on a monthly basis following the month of the delivery of services and are required to make payments under standard credit terms. The Company establishes an allowance for advertiser credits, which is included in accrued expense and other current liabilities in the balance sheet, using its best estimate of the amount of expected future reductions in advertisers' payment obligations related to delivered services based on analysis of historical credits. The balance associated with the allowance for advertiser credits in the Company's consolidated balance sheet was \$0, \$346,000, and \$370,000 as of December 31, 2017, 2018 and 2019, respectively. Customer payments received in advance of revenue recognition are also contract liabilities and are recorded as deferred revenue. The deferred revenue balance in the Company's consolidated balance sheet as of December 31, 2017, 2018, and 2019, was \$313,000, \$1.8 million, and \$1.2 million, respectively. During the year ended December 31, 2018 and 2019, revenue recognized that was included in the contract liabilities balances at the beginning of the period was \$148,000 and \$1.6 million, respectively.

The majority of the Company's total revenue is derived from contracts that include consideration that is variable in nature. The variable elements of these contracts primarily include the number of transactions (for example, the number qualified phone calls). For contracts with an effective term greater than one year, the Company applies the standard's practical expedient that permits the exclusion of disclosure of the value of unsatisfied performance obligations for these contracts as the Company's right to consideration corresponds directly to the value provided to the customer for services completed to date and all future variable consideration is allocated to wholly unsatisfied performance obligations. A term for purposes of these contracts has been estimated at 24 months. In addition, the Company applies the standard's optional exemption to disclose information about performance obligations for contracts that have original expected terms of one year or less.

For arrangements that include multiple performance obligations, the transaction price from the arrangement is allocated to each respective performance obligation based on its relative standalone selling price and recognized when revenue recognition criteria for each performance obligation are met. The standalone selling price for each performance obligation is established based on the sales price at which the Company would sell a promised good or service separately to a customer or the estimated standalone selling price.

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 owed that occurs subsequent to period ends.

The Company's incremental direct costs of obtaining a contract, which consist primarily of sales commissions, are generally deferred and amortized to sales and marketing expense over the estimated life of the relevant customer relationship of approximately 24 months and are subject to being monitored every period to reflect any significant change in assumptions. In addition, the deferred contract cost asset is assessed for impairment

on a periodic basis. The Company's contract acquisition costs are included in other assets, net in the balance sheet. The Company is applying the standard's practical expedient permitting expensing of costs to obtain a contract when the expected amortization period is one year or less, which typically results in expensing commissions paid to acquire certain contracts. As of December 31, 2017, the Company did not have deferred contract costs recognized in its consolidated balance sheet. As of December 31, 2018 and 2019, the Company had \$316,000 and \$287,000 of net deferred contract costs, respectively, and the amortization associated with these costs was \$338,000 and \$688,000 for the year ended December 31, 2018 and 2019, respectively.

(i) Service Costs

The largest component of the Company's service costs consists of user acquisition costs that relate primarily to payments made to distribution partners for access to their mobile, online, offline, or other user traffic. The Company enters into agreements of varying durations with distribution partners that integrate the Company's services into their web sites, indexes or other sources of user traffic. The primary economic structure of the distribution partner agreements is a variable payment based on a specified percentage of revenue. These variable payments are often subject to minimum payment amounts per phone call or other action. Other payment structures that to a lesser degree exist include: 1) variable payments based on a specified metric, such as number of paid calls/texts or other actions, 2) fixed payments, based on a guaranteed minimum amount of usage delivered, 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 variable or fixed payments. Agreements with variable payments based on a percentage of revenue, number of paid phone calls/texts 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. Agreements with fixed payments and 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.

Service costs also include network operations and customer service costs that consist primarily of costs associated with providing performance-based advertising and marketing services. These costs include telecommunication costs, including the use of phone numbers for providing call based advertising services, colocation service charges and depreciation of network equipment and software, bandwidth and software license fees, payroll and expenses of related personnel, and stock-based compensation. Other service costs include license and content fees, costs to maintain our websites, credit card processing fees and domain name and related renewal and registration costs.

(j) Advertising Expenses

Advertising costs are expensed as incurred and include mobile and online advertising and related outside marketing activities, including sponsorships and trade shows. Such costs are included in sales and marketing. Advertising costs were approximately \$1.5 million and \$1.8 million for the years ended December 31, 2018 and 2019, respectively.

(k) Product Development

Product development costs consist primarily of expenses incurred by the Company in the research and development, creation, and enhancement of the Company's products 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 Topic 350, *Intangibles – Goodwill and Other*. FASB ASC Topic 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.

(l) 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 law is recognized in results of operations in the period that includes the enactment date.

(m) Stock-Based Compensation

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

(n) 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 and intangible assets, valuation of intangible assets, valuation of contingent consideration transferred as a result of business combinations, the fair value of the Company's common stock and stock option awards, the impairment of goodwill and the valuation allowance for deferred tax assets. Actual results could differ from those estimates.

(o) Concentrations

The Company maintains substantially all of its cash and cash equivalents with two financial institutions and are all considered at Level 1 fair value with observable inputs that reflect quoted prices for identical assets or liabilities in active markets. At various points during 2018, the Company held cash equivalents in deposit sweep accounts with these same financial institutions. These Level 2 assets were fully liquidated prior to December 31, 2018.

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

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

	Years ended December 31,	
	2018	2019
Advertiser A	23%	26%
Advertiser B	19%	15%

Advertiser A is also a distribution partner.

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

	At December 31,	
	2018	2019
Advertiser A	15%	10%
Advertiser B	31%	41%

*Less than 10% of accounts receivable

In certain cases, the Company may engage directly with one or more advertising agencies who act on an advertiser's behalf. In addition, an advertising agency may represent more than one advertiser that utilizes the Company's products and services. One advertising agency represented 14% and 13% of consolidated revenue for the years ended December 31, 2018 and 2019, respectively. This same advertising agency represented 23% and 37% of accounts receivable as of December 31, 2018 and 2019, respectively.

There were no distribution partners paid more than 10% of consolidated revenue for the years ended December 31, 2018 and 2019.

(p) Net Income (Loss) Per Share

The Company computes net income (loss) per share of Class A and Class B common stock using the two class method. Under the provisions of the two class method, basic net income (loss) per share is computed by dividing net income (loss) applicable to common stockholders by the weighted average number of common shares outstanding during the year. Diluted net income (loss) per share is computed by dividing net income (loss) applicable to common stockholders by the weighted average number of common and dilutive common equivalent shares outstanding during the period. The computation of the diluted net income (loss) per share of Class B common stock assumes the conversion of Class A common stock to Class B common stock, while the diluted net income (loss) per share of Class A common stock does not assume the conversion of those shares.

In accordance with the two class method, the undistributed earnings (losses) for each year are allocated based on the contractual participation rights of the Class A and Class B common shares and the restricted shares as if the earnings for the year had been distributed. Considering the terms of the Company's charter which provides that, if and when dividends are declared on its common stock in accordance with Delaware General Corporation Law, equivalent dividends shall be paid with respect to the shares of Class A common stock and Class B common stock and that both classes of common stock have identical dividend rights and would share equally in the Company's net assets in the event of liquidation, the Company has allocated undistributed earnings (losses) on a proportionate basis. The Company paid cash dividends equally to both classes of common stock and unvested restricted shares from November 2006 through May 2015 and in December 2017, the Company declared a special cash dividend. See *Note 5. Stockholders' Equity* of the Notes to Consolidated Financial Statements for further discussion.

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 impact the calculation of amounts allocated to common stock.

The following table presents the computation of basic net loss per share for the periods ended (in thousands, except per share amounts):

	Twelve months ended December 31,			
	2018		2019	
	Class A	Class B	Class A	Class B
Basic net loss per share:				
Numerator:				
Net loss applicable to common stockholders	\$ (319)	\$ (2,359)	\$ (426)	\$ (3,616)
Denominator:				
Weighted average number of shares outstanding used to calculate basic net loss per share	5,056	37,390	4,793	40,667
Basic net loss per share applicable to common stockholders	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>	<u>\$ (0.09)</u>	<u>\$ (0.09)</u>

The following table presents the computation of diluted net loss per share for the periods ended (in thousands, except per share amounts):

	Twelve months ended December 31,			
	2018		2019	
	Class A	Class B	Class A	Class B
Diluted net loss per share:				
Numerator:				
Net loss	\$ (319)	\$ (2,359)	\$ (426)	\$ (3,616)
Reallocation of net loss for Class A shares as a result of conversion of Class A to Class B shares	—	(319)	—	(426)
Net loss applicable to common stockholders	<u>\$ (319)</u>	<u>\$ (2,678)</u>	<u>\$ (426)</u>	<u>\$ (4,042)</u>
Denominator:				
Weighted average number of shares outstanding used to calculate basic net loss per share	5,056	37,390	4,793	40,667
Conversion of Class A to Class B common shares outstanding	—	5,056	—	4,793
Weighted average number of shares outstanding used to calculate diluted net loss per share	<u>5,056</u>	<u>42,446</u>	<u>4,793</u>	<u>45,460</u>
Diluted net loss per share applicable to common stockholders	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>	<u>\$ (0.09)</u>	<u>\$ (0.09)</u>

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

- For the years ended December 31, 2018 and 2019, outstanding options to acquire 5,511 and 4,782 shares, respectively, of Class B common stock.
- For the years ended December 31, 2018 and 2019, 574 and 1,030 shares of unvested Class B restricted common shares, respectively.
- For the years ended December 31, 2018 and 2019, 690 and 756 restricted stock units, respectively.

(q) Guarantees

FASB ASC Topic 460, *Guarantees* 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 Topic 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 Topic 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 the Company could be required to make under these indemnification provisions could be material.

(r) Recent Accounting Pronouncement Not Yet Effective

In August 2018, the FASB issued Accounting Standards Update No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) – Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract (ASU 2018-15)*, an ASU which requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to be capitalized. The ASU is effective for reporting periods beginning after December 15, 2019, with early adoption permitted. The Company does not expect adoption of ASU 2018-15 to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued Accounting Standards Update No. 2018-13, *Fair Value Measurement (Topic 820) - Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13)*, an ASU which modifies the disclosure requirements on fair value measurements in ASC 820. The ASU is effective for reporting periods beginning after December 15, 2019, with early adoption permitted. The Company does not expect adoption of ASU 2018-13 to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (ASU 2017-04)*. ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating “Step 2” from the goodwill impairment test. ASU 2017-04 is effective for public companies’ annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments (ASU 2016-13)*, an ASU amending the impairment model for most financial assets and certain other instruments. The ASU is effective for reporting periods beginning after December 15, 2019, with early adoption permitted after December 15, 2018. The ASU must be adopted using a modified-retrospective approach. In November 2018, the FASB issued Accounting Standards Update No. 2018-19, *Codification Improvements (Topic 326), Financial Instruments - Credit Losses (ASU 2018-19)*, an ASU intended to improve the Codification or correct its unintended application. The ASU is effective upon the adoption of the amendments in Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which is effective for reporting periods beginning after December 15, 2019, with early adoption permitted after December 15, 2018. In addition, in May 2019, the FASB issued Accounting Standards Update No. 2019-05, *Financial Instruments — Credit Losses (Topic 326), Targeted Transition Relief, (ASU 2019-05)*, an ASU which provides ASU 2016-13 transition relief by providing entities with an alternative to irrevocably elect the fair value option for eligible financial assets measured at amortized cost upon adoption of the credit losses standard. To be eligible for the transition election, the existing financial asset must otherwise be both within the scope of the new credit losses standard and eligible for the applying the fair value option in ASC 825-10. The election must be applied on an instrument-by-instrument basis and is not available for either available-for-sale or held-to-maturity debt securities. The ASU is effective upon the adoption of the amendments in Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The Company does not expect adoption of ASU 2019-05, ASU 2018-19 and ASU 2016-13 to have a material impact on its consolidated financial statements.

In November 2019, the FASB issued Accounting Standards Update No. 2019-10, *Financial Instruments - Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842) - Effective Dates*, an ASU modifying the effective dates of various previous pronouncements. As the Company qualifies as a Smaller Reporting Company with the SEC, this ASU revised the effective date of ASU 2016-13 and ASU 2017-04 to fiscal years beginning after December 15, 2022. The Company does not expect adoption of ASU 2019-10 to have a material impact on our consolidated financial statements.

In November 2019, the FASB issued Accounting Standards Update No. 2019-11, *Codification Improvement to Topic 326, Financial Instruments — Credit Losses*, an ASU which makes several amendments to the new credit losses standard, including an amendment requiring entities to include certain expected recoveries of the amortized cost basis previously written off, or expected to be written off, in the allowance for credit losses for purchased credit

deteriorated assets. The amendments also provide transition relief related to troubled debt restructurings, allow entities to exclude accrued interest amounts from certain required disclosures and clarify the requirements for applying the collateral maintenance practical expedient. For entities that have not yet adopted the new credit losses standard, the effective dates and transition requirements are the same as those in ASU 2016-13. For entities that have adopted the new credit losses standard, the amendments are effective for fiscal years beginning after 15 December 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period, as long as the entity has adopted the new credit losses standard. The ASU must be adopted using a modified-retrospective approach. The Company does not expect adoption of ASU 2019-11 to have a material impact on its consolidated financial statements.

In December 2019, the FASB issued Accounting Standards Update No. 2019-12, *Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes*, an ASU which eliminates certain exceptions to the guidance in Accounting Standards Codification (ASC or Codification) 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The guidance also clarifies that single-member limited liability companies and similar disregarded entities that are not subject to income tax are not required to recognize an allocation of consolidated income tax expense in their separate financial statements, but they could elect to do so. The ASU is effective for reporting periods beginning after December 15, 2020, with early adoption permitted. The transition method related to the ASU amendments depend upon the nature of the guidance and vary depending upon the specific amendment being implemented. The Company does not expect adoption of ASU 2019-12 to have a material impact on its consolidated financial statements.

(2) Property and Equipment

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

	<u>Years ended December 31,</u>	
	<u>2018 (1)</u>	<u>2019 (1)</u>
Computer and other related equipment	\$ 18,839	\$ 19,386
Purchased and internally developed software	6,878	6,693
Furniture and fixtures	1,023	1,033
Leasehold improvements	1,275	1,737
	<u>\$ 28,015</u>	<u>\$ 28,849</u>
Less: accumulated depreciation and amortization	(25,094)	(25,821)
Property and equipment, net	<u>\$ 2,921</u>	<u>\$ 3,028</u>

- (1) Includes the original cost and accumulated depreciation of fully-depreciated fixed assets which were \$23.5 million and \$ 23.6 million at December 31, 2018 and 2019, respectively.

Depreciation and amortization expense related to property and equipment was approximately \$1.5 million for both the years ended December 31, 2018 and 2019.

(3) Leases

The Company adopted FASB ASC Topic 842, *Leases* (ASC 842) on January 1, 2019 and used the effective date of January 1, 2019 as its date of initial application. Consequently, financial information was not be updated and the disclosures required under the new standard are not be provided for dates and periods before January 1, 2019. The new standard provides a number of optional practical expedients in transition. The Company elected the 'package of practical expedients', which permits it not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. Therefore, the comparative information has not been adjusted and continues to be reported under FASB ASC Topic 840, *Leases* (ASC 840).

The primary impact upon adoption of the standard relates to the recognition of new right-of-use ("ROU") assets and lease liabilities on the Company's balance sheet for its office and operating leases and providing significant new disclosures about its leasing activities. On adoption, the Company recognized additional operating

lease liabilities of approximately \$8.7 million based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases and ROU assets of approximately \$7.4 million.

The new standard also provides practical expedients for an entity's ongoing accounting. The Company elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, the Company did not recognize ROU assets or lease liabilities, and this included not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. The Company also elected the practical expedient to not separate lease and non-lease components for all of its leases.

The Company has an operating lease for office space for its corporate headquarters in Seattle, Washington. It also has operating leases for office space in Mississauga, Canada and Wichita, Kansas. The Company leases its office facilities under operating lease agreements in accordance with ASC 842 and recognizes rent expense on a straight-line basis over the lease term with any lease incentives amortized as a reduction of rent expense over the lease term.

The Company's lease agreement with respect to office space in Seattle, Washington, as amended, expires on March 31, 2025. The Company has the option to terminate the lease in March 2023, subject to satisfaction of certain conditions, including a payment of a termination fee of approximately \$671,000. In addition, as part of the agreement, the lessor paid towards the cost of certain leasehold improvements ("landlord contribution") of which the Company could use approximately \$180,000 of unused landlord contribution as a credit against any payment obligation under the lease. In the second quarter of 2019, the Company requested the \$180,000 landlord contribution from the lessor as a reimbursement towards certain leasehold improvements and received those funds in the third quarter of 2019. In the first quarter of 2018, the lessor paid \$373,000 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. Additionally, in April 2018, the lessor refunded the previously provided security deposit and the Company provided a letter of credit to the lessor in the amount of \$575,000, which was reduced by \$100,000 in April 2019 and is contemplated to be reduced by such amount annually. The letter of credit was collateralized by a \$575,000 certificate of deposit, which was restricted in use and is included in other assets in the Company's condensed consolidated balance sheet as of December 31, 2018. On April 2, 2019, the Company was no longer required to collateralize the letter of credit and the certificate of deposit matured.

The Company's lease agreement with respect to office space in Mississauga, Canada commenced in November 2016, with a lease term of 60 months, expiring on November 30, 2021. The Company has the option to terminate the lease upon nine months notice without any termination fees if such notice is provided.

The Company's lease agreement with respect to office space in Wichita, Kansas is on a month-to-month basis. The lease agreement stipulates a mutual 120-day non-cancelable period to cease rental payments and vacate the premises, and is classified as a short-term operating lease. Short-term leases are leases having a term of twelve months or less. In December 2019, the Company entered into a lease agreement for an office space in Wichita, Kansas, which commences upon the completion by the landlord of certain defined leasehold improvements and continues for a period of sixty (60) months with an option to extend the term for two (2) additional periods of three (3) years each. The lease is expected to commence in the first quarter of 2020 when construction of the asset is completed. The Company has provided the lessor of its current lease agreement with notice of its intent to terminate.

Lease cost recognized in the Company's consolidated statements of operations and other information is summarized as follows (in thousands):

	<u>Year ended December 31,</u>	
	<u>2019</u>	
Operating lease cost	\$	1,703
Short-term operating lease cost (1)		118
Total operating lease cost (2)		<u>1,821</u>
Other information:		
Weighted-average remaining lease term - operating leases		5.2 years
Weighted-average discount rate - operating leases (3)		5.0%

- (1) The Company elected the practical expedient permitted in ASC Topic 842. As such, its short-term operating lease in Wichita, Kansas is not recognized as a liability as of the effective date of ASC Topic 842 and on the Company's balance sheet as of December 31, 2019. The Company recognizes short-term operating lease costs on a straight-line basis.
- (2) Rent expense incurred by the Company was approximately \$1.5 million for the year ended December 31, 2018.
- (3) The discount rate used to compute the present value of total lease liabilities as of December 31, 2019 was based on the Company's estimated incremental borrowing rate of similar secured borrowings available to the Company as of the implementation date of ASC 842 on January 1, 2019.

As of December 31, 2019, the Company's operating lease liabilities were as follows (in thousands):

	Total
Gross future operating lease payments (1)	\$ 8,564
Less: imputed interest	(1,400)
Present value of total operating lease liabilities	7,164
Less: current portion of operating lease liabilities	(1,500)
Total long-term operating lease liabilities	\$ 5,664

(1) Excludes future operating lease payments under the Wichita, Kansas office space lease agreement entered into in December 2019, which has not commenced. The gross future operating lease payments related to this agreement are \$1.0 million. Gross future operating lease payments including this lease agreement are \$9.6 million.

(4) Commitments and Contingencies

(a) 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 in accordance with ASC 842 and recognizes rent expense on a straight-line basis over the lease term with any lease incentive amortized as a reduction of rent expense over the lease term. Other contractual obligations primarily relate to minimum contractual payments due to outside service providers.

Future minimum payments are approximately as follows (in thousands):

	Facilities operating leases	Other contractual obligations	Total
2020	1,657	1,937	3,594
2021	1,852	439	2,291
2022	1,811	5	1,816
2023	1,868	—	1,868
2024 and after	2,386	—	2,386
Total minimum payments	\$ 9,574	\$ 2,381	\$ 11,955

(1) For additional information regarding the Company's facilities operating leases, see Note 3. Leases of the Notes to Consolidated Financial Statements for further discussion.

In connection with the Telmetrics acquisition in 2018, the Company has an earnout arrangement that requires the Company to pay up to a maximum of \$3.0 million in cash based upon the achievement of targeted financial goals over the two (2) twelve (12) month periods following the acquisition date. The estimated fair value of the contingent consideration arrangement is approximately \$568,000 and is recorded on the balance sheet in acquisition-related liabilities.

In connection with the Sonar acquisition in 2019, the Company has an earnout arrangement that requires the Company to pay up to a maximum of 389,000 shares of Class B common stock based upon the achievement of certain financial target goals by Sonar in 2020. To the extent earned and payable, one half of such shares will be issued upon the first anniversary of the closing and one half will be issued upon the second anniversary of the closing, with the timing of issuance subject to certain conditions and with any shares not previously issued to be issued on the fifth anniversary of the acquisition date. The estimated fair value of the contingent consideration arrangement is approximately \$1.0 million and is recorded on the balance sheet in acquisition-related liabilities.

The Company committed \$2.5 million in funding for a strategic technology business initiative. The Company expects to fulfill this commitment during 2020.

(b) Contingencies

The Company from time to time is a party to disputes and legal and administrative proceedings arising from the ordinary course of business. In some agreements to which the Company is a party to, 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 its 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 the Company could be required to make under these indemnification provisions could be material.

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, results of operations or liquidity.

(5) Income Taxes

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

	Years ended December 31,	
	2018	2019
United States	\$ (2,312)	\$ (5,174)
Foreign	(522)	(589)
Loss before provision for income taxes	<u>\$ (2,834)</u>	<u>\$ (5,763)</u>

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

	Years ended December 31,	
	2018	2019
Current federal provision		
Federal	\$ (48)	\$ —
State	30	—
Deferred provision (benefit)		
Federal	—	(1,014)
Foreign	(138)	(547)
State	—	(160)
Total income tax benefit	<u>\$ (156)</u>	<u>\$ (1,721)</u>

Income tax benefit from operations differed from the amounts computed by applying the U.S. federal statutory rate to loss before provision for income taxes as a result of the following (in thousands):

	Years ended December 31,	
	2018	2019
Income tax benefit at U.S. statutory rate	\$ (595)	\$ (1,216)
State taxes, net of valuation allowance	24	(126)
Stock-based compensation (1)	378	75
Valuation allowance	(83)	471
Research tax credits	(13)	(444)
Acquisition/Accretion costs	—	(428)
Meals and entertainment	—	64
Other expenses	133	(117)
Total income tax benefit	\$ (156)	\$ (1,721)

(1) Includes non-deductible stock-based compensation and excess tax benefits and shortfalls from stock-based compensation.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below and reflects the 21% U.S. federal statutory rate for 2018 and 2019 (in thousands):

	As of December 31,	
	2018	2019
Deferred tax assets:		
Accrued liabilities not currently deductible	\$ 612	\$ 504
Intangible assets-excess of financial statement over tax amortization	873	239
Goodwill recognized on financial statements in excess of tax amortization	2,494	601
Stock-based compensation	1,894	2,024
Federal net operating losses	17,639	20,237
State, local and foreign net operating loss carryforwards	6,395	7,133
Research & experimental tax and other credit carryforwards	3,888	4,273
Lease liability	—	1,899
Other	1,320	843
Gross deferred tax assets	35,115	37,753
Valuation allowance	(35,057)	(36,153)
Net deferred tax assets	\$ 58	\$ 1,600
Deferred tax liabilities:		
Intangible assets-excess of tax over financial statement amortization	(1,589)	(1,044)
Right-of-use lease asset	—	(1,537)
Net deferred tax liabilities	\$ (1,531)	\$ (981)

As of December 31, 2019, the Company's federal NOL carryforwards were approximately \$92.0 million and federal research and development credit carryforwards of \$5.4 million for income tax purposes, which are potentially available to offset future tax liabilities. As of December 31, 2019, the Company's gross state, city, and other foreign jurisdiction NOL carryforwards were approximately \$88.0 million, which begin to expire in 2023.

In addition, at December 31, 2018 and 2019, the Company had certain federal NOL carryforwards of approximately \$1.7 million, a portion of which expired in 2019. The Tax Reform Act of 1986 limits the use of NOL and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. The

Company believes that such a change has occurred related to these specific NOL carryforwards, and that the utilization of the approximately \$1.7 million in carryforwards is limited such that substantially all of these NOL carryforwards will likely never be utilized. Accordingly, the Company has not included these federal NOL carryforwards in its deferred tax assets.

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

At December 31, 2018 and 2019, the Company recorded a valuation allowance of \$35.1 million, and \$36.2 million, respectively, against its federal, state, city and foreign net deferred tax assets, as it believes it is more likely than not that these benefits will not be realized. The net change in the total valuation allowance for each of the years ended December 31, 2018 and 2019 was \$2.4 million and \$1.1 million, respectively.

The Company regularly reviews deferred tax assets to assess whether it is more likely than not that the deferred tax assets will be realized and, if necessary, establishes a valuation allowance for portions of such assets to reduce the carrying value. In assessing whether it is more likely than not that the Company's deferred tax assets will be realized, factors considered included: historical taxable income, historical trends related to advertiser usage rates, projected revenues and expenses, macroeconomic conditions, issues facing the industry, existing contracts, the Company's ability to project future results and any appreciation of its other assets. The Company incurred taxable losses in 2016, 2017, 2018, and 2019. Based on the level of historical taxable losses and the uncertainty of projections for future taxable income over the periods for which the deferred tax assets are deductible, with the exception of certain insignificant foreign deferred tax assets, the Company concluded that it is not more likely than not that the gross deferred tax assets will be realized.

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. Resolution of uncertain tax positions will impact the Company's effective tax rate when settled. The Company does not have any significant interest or penalty accruals. The provision for income taxes includes the impact of contingency provisions and changes to contingencies that are considered appropriate. The following table summarizes activity related to tax contingencies from January 1, 2018 to December 31, 2019 which are recorded as an offset to deferred tax assets (in thousands):

Gross tax contingencies—December 31, 2017	\$ 1,122
Gross increases to tax positions associated with prior periods	—
Gross increases to current period tax positions	36
Gross decreases to tax positions associated with prior periods	—
Settlements	—
Lapse of statute of limitations	—
Gross tax contingencies—December 31, 2018	<u>\$ 1,158</u>
Gross increases to tax positions associated with prior periods	—
Gross increases to current period tax positions	110
Gross decreases to tax positions associated with prior periods	—
Settlements	—
Lapse of statute of limitations	—
Gross tax contingencies—December 31, 2019	<u>\$ 1,268</u>

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 2012 are within the statute of limitations and are under examination or may be subject to examination.

(6) Stockholders' Equity

(a) Common Stock and Authorized Capital

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

In November 2014, the Company's board of directors authorized a new share repurchase program (the "2014 Repurchase Program"), which supersedes and replaces any prior repurchase programs. Under the 2014 Repurchase Program, the Company is authorized to repurchase up to 3 million shares of the Company's Class B common stock in the aggregate through open market and privately negotiated transactions, at such times and in such amounts as the Company deems appropriate. Repurchases may also be made under a Rule 10b5-1 plan, which would permit shares to be repurchased when the Company might otherwise be precluded from doing so under insider trading laws. 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. The 2014 Repurchase Program does not have an expiration date and may be expanded, limited or terminated at any time without prior notice. The Company has made no repurchases under the 2014 Repurchase Program for the years ended December 31, 2018 and 2019. During the year ended December 31, 2018, the Company repurchased 2.3 million shares of Class B common stock for approximately \$5.7 million from a former member of the Company's board of directors, which was not pursuant to the 2014 Repurchase Program. The Company's board of directors approved the repurchase transaction and the Company retired these shares in 2018. During the year ended December 31, 2019, the Company repurchased 90,000 shares of Class B common stock for approximately \$900 (employee restricted equity subject to vesting and were repurchased for \$.01 per share upon termination of employment), which was not pursuant to the 2014 Repurchase Program. Shares repurchased but not yet retired by the Company are classified as treasury stock on the consolidated balance sheet before retirement. Retirement of treasury stock results in reductions to common stock and additional paid-in capital.

In December 2017, the Company declared a special cash dividend in the amount of \$0.50 per share on its Class A and B common stock and recorded a Dividends Payable of \$21.9 million in its consolidated balance sheet at December 31, 2017. The Company paid the total dividend of \$21.9 million in 2018.

In November 2018, the Company acquired 100% of the outstanding stock of Callcap for consideration of approximately \$25 million in cash at closing and approximately 3.4 million shares of Class B common stock to be issued over the four-year period following the acquisition date. The issuance of the Class B common stock is not contingent.

In December 2019, the Company acquired 100% of the outstanding stock of Sonar for consideration of approximately \$8.5 million in cash at closing and approximately 1.0 million shares of Class B common stock to be issued over the three-year period following the acquisition date, with the timing of issuance subject to certain conditions and with any shares not previously issued to be issued on the fifth anniversary of the acquisition date. Such issuance of the Class B common stock is not contingent. The Company also agreed to issue up to approximately 389,000 shares of Class B common stock based upon the achievement of certain financial target goals by Sonar in 2020. To the extent earned and payable, one half of such shares will be issued upon the first anniversary of the closing and one half will be issued upon the second anniversary of the closing, with the timing of issuance

subject to certain conditions and with any shares not previously issued to be issued on the fifth anniversary of the acquisition date.

(b) Stock Option Plan

The Company's stock incentive plan (the "2012 Plan"), which was established in 2012, allows for grants of stock options, restricted stock units and restricted stock awards to eligible participants and such options may be designated as incentive or non-qualified stock options at the discretion of the 2012 Plan's Administrative Committee. Prior to the 2012 Plan, the Company granted stock-based awards under its 2003 Amended and Restated Stock Incentive Plan (the "2003 Plan"). No further awards were made under the 2003 Plan after December 31, 2012. The 2012 Plan authorizes up to 3,500,000 shares of Class B common stock that may be issued with respect to awards granted under the 2012 Plan, and provides that the total number of shares of Class B common stock for which options designated as incentive stock options may be granted shall not exceed 3,500,000 shares. Annual increases to each of these share limits are to be added on the first day of each fiscal year beginning on January 1, 2013 equal to 5% of the outstanding common stock (including for this purpose any shares of common stock issuable upon conversion of any outstanding capital stock of the Company) or in the case of incentive stock options, the lesser of 2,000,000 shares of Class B common stock or such number as determined by the Company's board of directors. As a result of this provision, the authorized number of shares available under the 2012 Plan was increased by 2,101,062 and 2,213,550 on January 1, 2019 and 2020, respectively, bringing the aggregate authorized number of shares available under the 2012 plan to 20,158,770. 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 and restricted stock awards and units vest 25% each year annually over a 4-year period.

The Company did not grant any options with exercise prices less than the then current market value during 2018 and 2019.

The Company measures stock-based compensation cost at the grant date based on the fair value of the award and recognizes it as expense over the vesting or service period, as applicable, of the stock award using the straight-line method. The Company accounts for forfeitures as they occur. Stock-based compensation has been included in the same lines as compensation paid to the same employees in the consolidated statements of operations.

Stock-based compensation expense was included in the following operating expense categories (in thousands):

	Twelve months ended December 31,	
	2018	2019
Service costs	\$ 435	\$ 141
Sales and marketing	563	716
Product development	356	290
General and administrative	1,686	2,000
Total stock-based compensation	\$ 3,040	\$ 3,147

For the years ended December 31, 2018 and 2019, the income tax benefit related to stock-based compensation included in net loss was \$0 for all 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, 2018 and 2019, the expected life of each award granted was determined based on historical experience with similar awards, giving consideration to contractual terms, anticipated exercise patterns, and vesting schedules. 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.

The following assumptions were used in determining the fair value of time-vested stock options granted for the periods indicated:

	Years ended December 31,	
	2018	2019
Expected life (in years)	4.00 – 6.25	4.00 – 6.25
Risk-free interest rate	2.54% – 2.93%	1.57% – 2.22%
Expected volatility	41% to 53%	39% to 50%
Weighted average expected volatility	49%	38%
Expected dividend yield	0% – 3.7%	0%

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

	Options and Restricted Stock available for grant (in thousands)	Number of options outstanding (in thousands)	Weighted average exercise price of options	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Balance at December 31, 2018	10,078	5,511	\$ 4.98	5.53	\$ 24
Increase to pool January 1, 2019	2,214	—			
Options granted	(1,078)	1,078	\$ 4.31		
Restricted stock granted	(1,083)	—			
Restricted stock forfeited	131	—			
Options exercised	—	(503)	\$ 3.68		
Options expired	978	(978)	\$ 6.34		
Options forfeited	326	(326)	\$ 3.53		
Balance at December 31, 2019	11,566	4,782	\$ 4.80	5.82	\$ 1,585
Options exercisable at December 31, 2019		2,900	\$ 5.55	4.08	\$ 611

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

	Years ended December 31,	
	2018	2019
Weighted average fair value of options granted	\$ 1.20	\$ 1.62
Intrinsic value of options exercised (in thousands)	\$ 14	\$ 496
Total grant date fair value of restricted stock vested (in thousands)	\$ 2,845	\$ 1,545

At December 31, 2019, there was \$2.0 million of unrecognized stock option compensation expense related to non-vested awards, which is expected to be recognized over a weighted average period of 2.7 years.

During the year ended December 31, 2018 and 2019, gross proceeds recognized from the exercise of stock options was \$89,000 and \$1.8 million, respectively.

Restricted stock awards and restricted stock unit activity during the period is as follows:

	Shares/ Units (in thousands)	Weighted Average Grant Date Fair Value
Unvested at December 31, 2018	1,264	\$ 3.28
Granted	1,083	4.17
Vested	(430)	3.60
Forfeited	(131)	3.82
Unvested at December 31, 2019	<u>1,786</u>	<u>3.70</u>

Restricted stock awards and restricted stock units 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 stock awards and restricted stock units are expensed on a straight-line basis over the vesting or service period, as applicable, and forfeitures are recognized as they occur. Restricted stock units entitle the holder to receive one share of the Company's Class B common stock upon satisfaction of certain service conditions.

At December 31, 2019, there was \$5.6 million of unrecognized restricted stock compensation expense related to non-vested restricted stock, which is expected to be recognized over a weighted average period of 3.5 years.

(c) Employee Stock Purchase Plan

On March 8, 2013, the Company's board of directors adopted and in May 2013 the stockholders approved the 2014 Employee Stock Purchase Plan ("2014 ESPP"), which became effective on January 1, 2014. The Company authorized an aggregate of 225,000 shares of Class B common stock for issuance under the plan to participating employees. The 2014 ESPP provides eligible employees the opportunity to purchase the Company's Class B common stock at a price equal to 95% of the closing price on the last business day of each purchase periods. The 2014 ESPP permits eligible employees to purchase amounts up to 15% of their compensation in the purchase period, and no employee is permitted to purchase stock worth more than \$25,000 in any calendar year, valued as of the first day of each purchase period. During the year ended December 31, 2018, 16,175 shares were purchased at prices ranging from \$2.52 to \$2.91 per share. During the year ended December 31, 2019, 12,200 shares were purchased at prices ranging from \$2.98 to \$4.49 per share.

(7) 401(k) Savings Plan

The Company maintains voluntary defined contribution plans, which are qualified, covering employees that meet eligibility requirements. Eligible employees may elect to defer and contribute a portion of their eligible compensation to the plans, not to exceed the dollar amounts set by applicable laws. During 2011, the Company elected to match a portion of the employee contributions up to a defined maximum. In 2018 and 2019, cash contributions were made in the amount of \$189,000 and \$228,000 respectively.

(8) 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 the years ended December 31, 2018 and 2019, the Company operated in a single segment comprised of its performance-based advertising business focused on phone calls and its local leads platform.

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

Revenues by geographic region are as follows:

	Years ended December 31,	
	2018	2019
United States	99%	98%
Canada	1%	2%
Other countries	*	*
	<u>100%</u>	<u>100%</u>

* Less than 1% of revenue

(9) Acquisitions

(a) Telmetrics Acquisition:

In November 2018, the Company acquired 100% of the outstanding stock of Telmetrics, an enterprise call and text tracking and analytics company based in Canada for total consideration consisting of the following:

- Approximately \$10.1 million in cash, paid at closing; and
- Up to \$3.0 million in cash based upon the achievement of targeted financial goals over the two (2) twelve (12) month periods following the acquisition date.

The Company accounted for the Telmetrics acquisition as a business combination. As a result of the acquisition, the Company captured additional scale with its call analytics business and enhanced text communications product initiatives.

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

Cash	\$	10,100
Future consideration		1,600
Total	\$	11,700

The future consideration includes an earnout arrangement that requires the Company to pay up to a maximum of \$3.0 million in cash to the former shareholders of Telmetrics based upon the achievement of targeted financial goals over the two (2) twelve (12) month periods following the acquisition date. The potential undiscounted amount of all future payments that the Company could be required to make under the contingent earnout arrangement is between \$0 and \$3.0 million. Of the \$3.0 million possible earnout, \$450,000 may be paid to certain employees to the extent they remain employed by the Company on the first and second anniversaries following the acquisition date. Such amounts have been excluded from the purchase consideration and are treated as compensation expense. The fair value of the contingent consideration arrangement of approximately \$568,000 was estimated by applying the income approach, which is based on significant inputs that are not observable in the market (Level 3 inputs), such as the discount rate and the probability of meeting targeted financial goals. Changes in these assumptions could have an impact on the payout of contingent consideration with a maximum payout being \$1.8 million as of December 31, 2019. The earnout liability is recorded on the balance sheet in acquisition-related liabilities.

In connection with the acquisition, a portion of the cash consideration was placed in escrow to secure indemnification obligations for a period of 18 months from the closing date. The escrow amounts are included as part of the purchase price consideration and if there is any excess escrow amount above identified indemnification obligations, the excess may be released. In the event any indemnification obligations are identified, the economic consideration may be reduced accordingly.

The following summarizes the estimated fair value of the assets acquired and the liabilities assumed at the acquisition date (in thousands):

Cash and cash equivalents	\$	359
Accounts receivable		1,274
Prepaid expenses and other current assets		586
Property and equipment		281
Identifiable intangible assets		6,351
Liabilities assumed		(885)
Deferred tax liabilities		(1,677)
Net assets acquired		6,289
Goodwill		5,472
Total	\$	11,761

(1) Included working capital adjustments finalized subsequent to the acquisition in November 2018, resulting in total consideration of approximately \$11.8 million and an adjustment to goodwill in the amount of \$61,000 during the year ended December 31, 2019.

The acquired identifiable intangible assets of approximately \$6.4 million consist primarily of customer relationships, technology, tradenames, and non-compete agreements which will be amortized over 24 to 60 months (weighted average of 3.6 years) using the straight-line method. Goodwill represents the expected synergies with our existing business, the acquired assembled workforce, potential new customers and potential future cash flows after the acquisition of Telmetrics. The goodwill is not anticipated to be deductible for Canadian tax purposes.

(b) Callcap Acquisition:

In November 2018, the Company acquired 100% of the outstanding stock of Callcap, a call monitoring and analytics solutions company based in Kansas for total consideration of \$35.0 million, consisting of the following:

- Approximately \$25.0 million in cash, and
- 3.4 million shares of Class B common stock valued at approximately \$10.0 million, to be issued over the four-year period following the acquisition date. The issuance of the Class B common stock is not contingent.

The Company accounted for the Callcap acquisition as a business combination. As a result of the acquisition, the Company expanded its customer base, as well as enhanced its growth opportunities in verticals and new customer channels, such as the small business segment.

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

Cash	\$	24,993
Fair value of equity consideration		10,017
Total	\$	35,010

The fair value of the 3.4 million shares of Class B common stock to be issued over the four-year period following the acquisition date, was calculated based on the closing price of Marchex's Common Stock on Nasdaq on the acquisition date and is recorded on the Company's balance sheet within additional paid-in capital.

In connection with the acquisition, a portion of the cash and equity consideration was (or will be on issuance) placed in escrow to secure indemnification obligations for a period of 18 months from the closing date. The escrow amounts are included as part of the purchase price consideration and will ultimately be released less any indemnification obligations finally determined.

The following summarizes the estimated fair value of the assets acquired and the liabilities assumed at the acquisition date (in thousands):

Cash and cash equivalents	\$	490
Accounts receivable		246
Prepaid expenses and other current assets		504
Property and equipment		93
Identifiable intangible assets		15,128
Liabilities assumed		(482)
Net assets acquired		15,979
Goodwill		19,031
Total	\$	<u>35,010</u>

The acquired identifiable intangible assets of approximately \$15.1 million consist primarily of customer relationships, tradenames, technologies, and non-compete agreements, which will be amortized over their preliminary estimated useful lives ranging from 24 to 60 months (weighted average of 4.1 years) using the straight-line method. Goodwill represents the expected synergies with our existing business, the acquired assembled workforce, potential new customers and potential future cash flows after the acquisition of Callcap. The goodwill is deductible for federal tax purposes.

(c) Sonar Acquisition:

In December 2019, the Company acquired 100% of the outstanding stock of Sonar, an enterprise text and messaging sales engagement and analytics company based in California for total consideration of the following:

- Approximately \$8.5 million in cash, paid at closing; and
- 1.0 million shares of Class B common stock, to be issued over the three-year period following the acquisition date, with the timing of issuance subject to certain conditions and with any shares not previously issued to be issued on the fifth anniversary of the acquisition date. The 1.0 million shares of Class B common stock were valued at approximately \$3.8 million based on the closing price of Marchex's Common Stock on Nasdaq on the acquisition date. The issuance of the Class B common stock is not contingent.
- Up to 389,000 shares of Class B common stock based upon the achievement of certain financial target goals.

The Company accounted for the Sonar acquisition as a business combination. As a result of the acquisition, the Company expanded its customer base, as well as enhanced growth opportunities in verticals and new customer channels.

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

Cash	\$	8,496
Fair value of equity consideration		3,803
Future consideration		1,016
Total	\$	<u>13,315</u>

The fair value of the 1.0 million shares of Class B common stock to be issued over the three-year period following the acquisition date, with the timing of issuance subject to certain conditions and with any shares not previously issued to be issued on the fifth anniversary of the acquisition date, was calculated based on the closing price of Marchex's Common Stock on Nasdaq on the acquisition date and is recorded on the Company's balance sheet within additional paid-in capital. The future consideration includes an earnout arrangement that requires the Company to pay up to a maximum of 389,000 shares of Class B common stock to the former shareholders of Sonar based upon the achievement of targeted financial goals by Sonar in 2020. The potential undiscounted amount of all future payments that the Company could be required to make under the contingent earnout arrangement is between 0 and 389,000 shares of Class B common stock. To the extent earned and payable, one half of such shares will be issued upon the first anniversary of the closing and one half will be issued upon the second anniversary of the closing, with the timing of issuance subject to certain conditions and with any shares not previously issued to be issued on the fifth anniversary of the acquisition date. The fair value of the consideration arrangement of \$1.0 million was estimated by applying the income approach, which is based on significant inputs that are not observable in the market (Level 3 inputs), such as the discount rate and the probability of meeting targeted financial goals. The earnout is recorded on the balance sheet within acquisition-related liabilities.

In connection with the acquisition, a portion of the cash consideration was placed in escrow to secure indemnification obligations for a period of 12 months from the closing date. The escrow amounts are included as part of the purchase price consideration and will ultimately be released in the event no indemnification obligations are identified. In the event any indemnification obligations are identified, the economic consideration may be reduced accordingly. The consideration is preliminary pending finalization of potential working capital adjustments.

The following summarizes the preliminary estimated fair value of the assets acquired and the liabilities assumed at the acquisition date (in thousands):

Cash and cash equivalents	\$	480
Accounts receivable		141
Prepaid expenses and other current assets		42
Property and equipment		25
Identifiable intangible assets		5,052
Liabilities assumed		(171)
Deferred tax liabilities		(1,184)
Net assets acquired		<u>4,385</u>
Goodwill		<u>8,930</u>
Total	\$	<u><u>13,315</u></u>

The acquired intangibles of approximately \$5.1 million consist primarily of technology, non-compete agreements, customer relationships, and tradenames which will be amortized over 24 to 60 months (weighted average of 4.6 years) using the straight-line method. Goodwill represents the expected synergies with our existing business, the acquired assembled workforce, potential new customers and potential future cash flows after the acquisition of Sonar. The goodwill is not deductible for federal tax purposes.

(d) Fair value measurements - Acquisition-related liabilities:

The following summarizes the changes in the estimated fair value of acquisition-related liabilities (in thousands):

Acquisition-related liabilities (Level 3):	
Balance at December 31, 2017:	\$ —
Contingent consideration - Telmetrics acquisition (1), (2)	1,509
Total acquisition-related liabilities as of December 31, 2018 (3):	\$ 1,509

(1) In connection with the Telmetrics acquisition, the Company recognized contingent consideration during the year ended December 31, 2018 of approximately \$1.5 million in fair value. There was no significant activity within the Level 3 instrument during the year ended December 31, 2018.

(2) There were not transfers between levels during the periods presented.

(3) The December 31, 2018 ending balance of acquisition-related liabilities includes approximately \$141,000 related to working capital adjustments.

Acquisition-related liabilities (Level 3):	
Balance at December 31, 2018:	
Contingent consideration - Telmetrics acquisition	\$ 1,509
Change in fair value (1)	(941)
Balance at December 31, 2019	568
Contingent consideration - Sonar acquisition (2)	1,016
Total acquisition-related liabilities as of December 31, 2019 (3):	\$ 1,584

(1) During the year ended December 31, 2019, the Company recognized a net change in fair value of the contingent consideration of approximately \$941,000 and the change is recorded on the income statement in acquisition-related costs (benefit). The net change in fair value was primarily due to a change in the assumptions used in the original estimate of the liability.

(2) In connection with the Sonar acquisition, the Company recognized contingent consideration during the year ended December 31, 2019 of approximately \$1.0 million in fair value. As of December 31, 2019, the amount recognized for the contingent consideration arrangement, the range of outcomes, and the assumptions used to develop the estimate had not changed.

(3) There were not transfers between levels during the periods presented.

(e) Unaudited pro forma financial information (acquisitions):

The following unaudited pro forma financial information summarizes the combined results of operations of the Company, Telmetrics, Callcap, and Sonar, and is based on the historical results of operations of the Company, Telmetrics, Callcap, and Sonar. The pro forma information reflects the results of operations of the Company as if the acquisitions of Telmetrics, Callcap, and Sonar had taken place on January 1, 2018. The unaudited pro forma financial information for the year ended December 31, 2018 combine the historical results of operations for the Company for the year ended December 31, 2018 and Telmetrics and Callcap historical results of operations during the pre-acquisition period from January 1, 2018 to November 5, 2018 and November 20, 2018, respectively. Additionally, the unaudited pro forma financial information for the year ended December 31, 2018 combine the historical results of operations for the Company and Sonar for the year ended December 31, 2018. The unaudited pro forma financial information for the year ended December 31, 2019 combine the historical results of operations for the Company for the year ended December 31, 2019 and Sonar historical results of operations during the pre-acquisition period from January 1, 2019 to December 12, 2019. The pro forma information for the Company, Telmetrics, Callcap, and Sonar includes adjustments for amortization of intangible assets, accretion of interest expense related to the future consideration, elimination of interest expense and income, and non-recurring acquisition related costs. The unaudited pro forma financial information is provided for information purposes only and is not necessarily indicative of the combined results that would have occurred had the acquisition taken place on the dates indicated, nor is it necessarily indicative of results that may occur in the future. The aggregate amounts of Telmetrics' and Callcap's revenue included in the Company's consolidated statements of operations from the acquisition date for the year ended December 31, 2018 was approximately \$2.4 million and the amount of net loss was not significant. The amount of Sonar revenue and the amount of net loss included in the Company's consolidated statements of operations from the acquisition date for the year ended December 31, 2019 was not significant.

	(Unaudited)			
	(in thousands)			
	Years ended December 31,			
	2018		2019	
Revenue	\$	103,792	\$	108,347
Net loss applicable to common stockholders		(6,000)		(4,838)

(10) Identifiable Intangible Assets from Acquisitions

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

	As of December 31, 2018			As of December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 12,368	\$ (295)	\$ 12,073	\$ 13,018	\$ (2,784)	\$ 10,234
Technologies	5,879	(258)	5,621	9,369	(2,252)	7,117
Non-compete agreements	2,559	(184)	2,375	3,409	(1,628)	\$ 1,781
Tradenames	672	(44)	628	734	(381)	353
Total identifiable intangible assets from acquisitions	<u>\$ 21,478</u>	<u>\$ (781)</u>	<u>\$ 20,697</u>	<u>\$ 26,530</u>	<u>\$ (7,045)</u>	<u>\$ 19,485</u>

Amortizable intangible assets are amortized on a straight-line basis over their useful lives. Customer relationships, acquired technologies, tradenames, and non-compete agreements have a weighted average useful life

from date of purchase of 5 years, 4 years, 2 years, 1 - 3 years, respectively. Aggregate amortization expense incurred by the Company for the year ended December 31, 2018 and 2019 was approximately \$781,000 and \$6.3 million, respectively. Based upon the current amount of acquired identifiable intangible assets subject to amortization, the estimated amortization expense for the next five years is as follows: \$6.9 million in 2020, \$5.4 million in 2021, \$3.3 million in 2022, \$3.0 in 2023, and \$826,000 thereafter.

(11) Goodwill

Changes in the carrying amount of goodwill for the year ended December 31, 2019 are as follows (in thousands):

Balance as of December 31, 2018	\$	24,442
Adjustment to goodwill ⁽¹⁾		61
Sonar acquisition		8,930
Balance as of December 31, 2019	\$	<u>33,433</u>

(1) Included working capital adjustments finalized subsequent to the acquisition in November 2018, resulting in total consideration of approximately \$11.8 million and an adjustment to goodwill in the amount of \$61,000 during the year ended December 31, of 2019.

The Company performs its annual impairment testing on November 30 and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. No impairment of goodwill has been identified in 2019. The testing of goodwill for impairment requires the Company to make significant estimates about its future performance and cash flows, as well as other assumptions. 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 changes in competition and market dynamics; 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. These estimates and circumstances are inherently uncertain and can be affected by numerous factors, including changes in economic, industry or market conditions, changes in business operations, a loss of a significant customer, changes in competition, volatility in financial markets, or changes in the share price of the Company's Class B common stock and market capitalization.

The current business environment is subject to evolving market conditions and requires significant management judgment to interpret the potential impact to our assumptions. During the first calendar quarter of 2020, the Company's stock price has been impacted by volatility in the U.S. financial markets as a result of the rapid spread of the coronavirus globally which has resulted in increased travel restrictions and disruption and shutdown of businesses. At various points in time, the Company's stock price approached or dropped below the then book value. 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, if the Company's stock price were to trade below book value per share for an extended period of time and/or should other events occur indicating the remaining carrying value of our assets might be impaired, the Company would test its goodwill for impairment and may recognize an impairment loss to the extent that the carrying amount exceeds such asset's fair value. The Company will continue to monitor its financial performance, stock price and other factors in order to determine if there are any indicators of impairment prior to its annual impairment evaluation in November 2020.

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 principal executive officer and our principal 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 principal executive officer and our principal financial officer has 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 principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2019 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 (2013 framework). Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2019.

The scope of management’s assessment as of December 31, 2019, did not include an assessment of the internal controls over financial reporting of Sonar Technologies, Inc. (“Sonar”) which was acquired in December 2019. Sonar constituted less than 1% of both our consolidated total assets as of December 31, 2019 and our consolidated revenues for the year ended December 31, 2019. Management did not assess the effectiveness of internal control over financial reporting of Sonar because of the timing of the acquisition during the fiscal year.

(b) Report of the registered public accounting firm

The report of Moss Adams 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

In November 2018, we acquired Telmetrics and Callcap. During the fourth quarter ended December 31, 2019, we integrated the acquired operations into our overall internal control over financial reporting process and have extended our oversight and monitoring processes that support our internal control over financial reporting to include the acquired operations. No other changes were made during the quarter ended December 31, 2019 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, cannot 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 2020 annual meeting of stockholders (the "2020 Proxy Statement"), or an amendment to this 10-K, to be filed with the Securities and Exchange Commission ("SEC") within 120 days of the Company's fiscal year ended December 31, 2019.

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

ITEM 11. EXECUTIVE COMPENSATION.

The information required under this item may be found in the 2020 Proxy Statement and is incorporated herein by reference, or an amendment to this 10-K, to be filed with the SEC within 120 days of the Company's fiscal year ended December 31, 2019.

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 2020 Proxy Statement and is incorporated herein by reference, or an amendment to this 10-K, to be filed with the SEC within 120 days of the Company's fiscal year ended December 31, 2019.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required under this item may be found in the 2020 Proxy Statement and is incorporated herein by reference, or an amendment to this 10-K, to be filed with the SEC within 120 days of the Company's fiscal year ended December 31, 2019.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required under this item may be found in the 2020 Proxy Statement and is incorporated herein by reference, or an amendment to this 10-K, to be filed with the SEC within 120 days of the Company's fiscal year ended December 31, 2019.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

1. The following reports and 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, 2018 and 2019;
- Consolidated Statements of Operations for the years ended December 31, 2018 and 2019;
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018 and 2019;
- Consolidated Statements of Cash Flow for the years ended December 31, 2018 and 2019; 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.

EXHIBIT INDEX

Exhibit Number	Description of Document
2.1	<u>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. (incorporated by reference to Exhibit 2.4 to the Registrant's Registration Statement on Form SB-2 (No. 333-121213), filed with the SEC on December 13, 2004).</u>
2.2	<u>Agreement and Plan of Merger, dated as of August 9, 2007, by and among Registrant, VoiceStar, Inc., and the Shareholders of VoiceStar, Inc. (incorporated by reference to Exhibit 2.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on March 14, 2018).</u>
2.3	<u>Agreement and Plan of Merger, dated as of April 7, 2011, by and among the Registrant, Marchex Acquisition Corporation, Jingle Networks, Inc. and with respect to Articles II, V and VIII only, Chip Hazard as the Stockholder Representative (incorporated by reference to Exhibit 4.4 to the Registrant's Amendment No. 1 to the Registration Statement on Form S-3 (No. 333-174016) filed with the SEC on June 29, 2011).</u>
++2.4	<u>Asset Purchase Agreement dated as of April 21, 2015, by and among NameFind LLC, GoDaddy.com, LLC, Marchex Sales, LLC and Marchex (incorporated by reference to Exhibit 2.11 to the Registrant's Current Report on Form 8-K filed with the SEC on April 27, 2015).</u>
++2.5	<u>Share Purchase Agreement, dated as of November 5, 2018, by and among the Registrant, Marchex CA Corporation, Telmetrics Inc., the Sellers and with respect to Articles I and IX only, the Stockholder Representatives (incorporated by reference to Exhibit 2.5 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).</u>
++2.6	<u>Share Purchase Agreement, dated as of November 20, 2018, by and among the Registrant, Sita Laboratories, Inc., the Sellers and the Stockholder Representative (incorporated by reference to Exhibit 2.6 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).</u>
++2.7	<u>Equity Purchase Agreement, dated as of December 13, 2019, by and among the Registrant, Sonar Technologies, Inc., the Sellers and Fortis Advisers LLC, as Securityholder Representative.</u>
3.1	<u>Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.3 to 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).</u>
3.2	<u>Second Amended and Restated By-Laws of the Registrant (incorporated by reference to Exhibit 3.3 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 6, 2017).</u>
4.1	<u>Specimen stock certificate representing shares of Class B Common Stock of the Registrant (incorporated by reference to Exhibit 4.1 to 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).</u>
*10.1	<u>Amended and Restated 2003 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to 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).</u>
*10.2	<u>Form of Retention Agreement (incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on March 14, 2018).</u>

Exhibit Number	Description of Document
++10.3	Master Services and License Agreement dated as of October 1, 2007, by and between MDNH, Inc. and YellowPages.com LLC (incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on March 14, 2018).
*10.4	Form of First Amendment to Retention Agreement (incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the SEC on March 10, 2015).
*10.5	Revised Form of Retention Agreement (incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the SEC on March 10, 2015).
10.6	Amended and Restated Lease effective as of June 5, 2009, between 520 Pike Street, Inc. and the Registrant (incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the SEC on March 10, 2015).
*10.7	Form of Executive Officer Stock Option Agreement (2003 Amended and Restated Stock Incentive Plan) (incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the SEC on March 10, 2015).
++10.8	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 (incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on March 7, 2016).
*10.9	Form of Notice of Grant of Executive Officer Stock Option (Performance-Based) (2003 Amended and Restated Stock Incentive Plan) (incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on March 7, 2016).
*10.10	Form of Notice of Grant of Executive Officer Stock Option (Time-Based) (2003 Amended and Restated Stock Incentive Plan) (incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on March 7, 2016).
*10.11	Amendment to the Marchex, Inc. 2003 Amended and Restated Stock Incentive Plan (incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on March 7, 2016).
*10.12	Marchex, Inc. Amended and Restated Annual Incentive Plan (incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the SEC on March 8, 2017).
*10.13	Marchex, Inc. 2012 Stock Incentive Plan (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Form 14A filed with the SEC on July 10, 2017).
*10.14	Marchex, Inc. 2014 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).
*10.15	Form of Incentive Stock Option Notice and Agreement (2012 Stock Incentive Plan) (incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).
*10.16	Form of Nonstatutory Stock Option Notice and Agreement (2012 Stock Incentive Plan) (incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).

Exhibit Number	Description of Document
*10.17	Form of Restricted Stock Agreement (2012 Stock Incentive Plan) (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).
*10.18	Form of Restricted Stock Units Notice and Agreement (2012 Stock Incentive Plan) (incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).
++10.19	Amendment No. 2 to Master Services and License Agreement, effective as of July 1, 2013, by and between Marchex Sales LLC, a Delaware limited liability company, and YellowPages.com LLC, a Delaware limited liability company (incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).
*10.20	Form of Indemnity Agreement (Section 16 Executive Officers and Directors) (incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).
++10.21	Pay-For-Call Distribution Agreement, by and between Yellowpages.com LLC, a Delaware limited liability company (d/b/a AT&T Interactive) and Marchex Sales, Inc., a Delaware corporation, effective as of January 1, 2011 (incorporated by reference to Exhibit 10.44 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 10, 2014).
++10.22	Amendment No. 1 to Pay-For-Call Distribution Agreement, by and between Yellowpages.com LLC, a Delaware limited liability company (formally d/b/a AT&T Interactive or ATTi) and Marchex Sales LLC, a Delaware limited liability company and successor in interest to Marchex Sales, Inc., effective as of December 31, 2012 (incorporated by reference to Exhibit 10.45 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 10, 2014).
++10.23	Amendment No. 3 to Master Services and License Agreement, effective June 25, 2015, by and between Marchex Sales LLC, a Delaware limited liability company and successor in interest to Marchex Sales, Inc. and YellowPages.com LLC, a Delaware limited liability company (formally d/b/a AT&T Interactive or ATTi) (incorporated by reference to Exhibit 10.47 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 10, 2015).
++10.24	Amendment No. 2 to Pay-For-Call Distribution Agreement, effective June 25, 2015, by and between Marchex Sales LLC, a Delaware limited liability company and successor in interest to Marchex Sales, Inc. and YellowPages.com LLC, a Delaware limited liability company (formally d/b/a AT&T Interactive or ATTi) (incorporated by reference to Exhibit 10.48 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 10, 2015).
++10.25	Terms and Conditions For Pay-For-Call Advertising for Resolution Media Clients, by and between Marchex Sales, LLC (f/k/a Marchex Sales, Inc.) and Resolution Media Inc., dated September 7, 2010 (incorporated by reference to Exhibit 10.45 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on March 7, 2016).
++10.26	26 Marchex Call Marketplace Insertion Order (State Farm – Auto Campaign), by and between Marchex Sales, LLC and Resolution Media Inc., dated December 22, 2015 (incorporated by reference to Exhibit 10.46 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on March 7, 2016).
++10.27	Marchex Call Marketplace Insertion Order Amendment No. 1 (State Farm – Auto Campaign), by and between Marchex Sales, LLC and Resolution Media Inc., dated January 20, 2016 (incorporated by reference to Exhibit 10.47 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on March 7, 2016).

Exhibit Number	Description of Document
++10.28	<u>Marchex Call Marketplace Insertion Order (State Farm – Life Campaign), by and between Marchex Sales, LLC and Resolution Media Inc., dated December 24, 2015 (incorporated by reference to Exhibit 10.48 to the Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on March 7, 2016).</u>
++10.29	<u>Marchex Call Marketplace Insertion Order Amendment No. 1 (State Farm – Life Campaign), by and between Marchex Sales, LLC and Resolution Media Inc., dated January 20, 2016 (incorporated by reference to Exhibit 10.49 to the Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on March 7, 2016).</u>
*10.30	<u>Amended and Restated Executive Employment Agreement effective as of April 21, 2016, by and between Michael Arends and the Registrant (incorporated by reference to Exhibit 10.50 to the Registrant’s Quarterly Report on Form 10-Q filed with the SEC on August 9, 2016).</u>
10.31	<u>Amendment No. 4 to Master Services and License Agreement, effective December 15, 2016, by and between Marchex Sales LLC, a Delaware limited liability company and successor in interest to Marchex Sales, Inc. and YellowPages.com LLC, a Delaware limited liability company (formally d/b/a AT&T Interactive or ATTi) (incorporated by reference to Exhibit 10.43 to the Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the SEC on March 8, 2017).</u>
++10.32	<u>Amendment No. 3 to Pay-For-Call Distribution Agreement, effective December 15, 2016, by and between Marchex Sales LLC, a Delaware limited liability company and successor in interest to Marchex Sales, Inc. and YellowPages.com LLC, a Delaware limited liability company (formally d/b/a AT&T Interactive or ATTi) (incorporated by reference to Exhibit 10.44 to the Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the SEC on March 8, 2017).</u>
10.33	<u>Amendment No. 3 to Amended and Restated Lease dated June 27, 2017, between 520 Pike Street, Inc. and the Registrant (incorporated by reference to Exhibit 10.46 to the Registrant’s Quarterly Report on Form 10-Q filed with the SEC on August 4, 2017).</u>
++10.34	<u>Amendment No. 5 to the Master Services and License Agreement, effective January 1, 2018, by and between Marchex Sales, LLC, a Delaware limited liability company (formerly, Marchex Sales, Inc.) and Dex Media, Inc., successor in interest to YellowPages.com LLC (formerly d/b/a AT&T Interactive or ATTi) (incorporated by reference to Exhibit 10.43 to the Registrant’s Quarterly Report on Form 10-Q filed with the SEC on May 9, 2018).</u>
++10.35	<u>Dex Media Call Advertising Program Agreement, effective October 24, 2017, by and between Dex Media, Inc., a Delaware corporation, and Marchex Sales, LLC, a Delaware limited liability company (incorporated by reference to Exhibit 10.44 to the Registrant’s Quarterly Report on Form 10-Q filed with the SEC on May 9, 2018).</u>
++10.36	<u>Master Services Agreement, dated January 1, 2018, by and between Marchex Sales, LLC, a Delaware limited liability company and Dex Media, Inc., a Delaware corporation (incorporated by reference to Exhibit 10.45 to the Registrant’s Quarterly Report on Form 10-Q filed with the SEC on May 9, 2018).</u>
++10.37	<u>Statement of Work No. 1, effective January 1, 2018, by and between Dex Media, Inc. and Marchex Sales, LLC pursuant to the Master Services Agreement, dated January 1, 2018, by and between Dex Media, Inc. and Marchex Sales, LLC (incorporated by reference to Exhibit 10.46 to the Registrant’s Quarterly Report on Form 10-Q filed with the SEC on May 9, 2018).</u>

Exhibit Number	Description of Document
10.38	Amendment No. 6 to Master Services and License Agreement, effective as of December 31, 2018, by and between Marchex Sales, LLC, a Delaware limited liability company (formerly, Marchex Sales, Inc.) and Dex Media, Inc., successor in interest to YellowPages.com LLC (formally d/b/a AT&T Interactive or ATTi) (incorporated by reference to Exhibit 10.42 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).
10.39	Amendment No. 4 to Pay-For-Call Distribution Agreement, effective as of December 31, 2018, by and between Marchex Sales, LLC, a Delaware limited liability company (formerly, Marchex Sales, Inc.) and Dex Media, Inc., successor in interest to YellowPages.com LLC (formally d/b/a AT&T Interactive or ATTi) (incorporated by reference to Exhibit 10.43 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).
+10.40	Research Services Agreement effective December 1, 2017, by and between Telmetrics Inc. and Dex Media, Inc. (incorporated by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 18, 2019).
†10.41	Amendment No. 7 to Master Services and License Agreement, effective as of December 31, 2019, by and between Marchex Sales, LLC, a Delaware limited liability company (formerly Marchex Sales, Inc.) and Thryv, Inc. (f/k/a Dex Media, Inc.), successor in interest to YellowPages.com LLC (formally d/b/a AT&T Interactive or ATTi).
†10.42	Amendment No. 5 to Pay-For-Call Distribution Agreement, effective as of December 31, 2019, by and between Marchex Sales, LLC, a Delaware limited liability company (formerly Marchex Sales, Inc.) and Thryv, Inc. (f/k/a Dex Media, Inc.), successor in interest to YellowPages.com LLC (formally d/b/a AT&T Interactive or ATTi).
†21.1	Subsidiaries of the Registrant.
†23.1	Consent of Moss Adams LLP.
24.1	Power of Attorney (incorporated herein by reference to the signature page of the Annual Report on Form 10-K)
†31(i)	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
††32	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
†101.INS	XBRL Instance Document.
†101.SCH	XBRL Taxonomy Extension Schema Document.
†101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
†101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
†101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
†101.PRE	XBRL Taxonomy Presentation Linkbase Document.
*	Management contract or compensatory plan or arrangement.
(+)	Certain identified information has been excluded from this Agreement because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.
(+)(+)	Certain information in this Agreement has been omitted and filed separately with the SEC. Confidential treatment has been granted with respect to the omitted portions.
†	Filed herewith.

_NOTE: CERTAIN IDENTIFIED INFORMATION IN THIS AGREEMENT HAS BEEN EXCLUDED FROM THE EXHIBIT BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED. SUCH PORTIONS HAVE BEEN REDACTED AND ARE MARKED WITH A “[*]” IN PLACE OF THE REDACTED LANGUAGE.**

**EQUITY PURCHASE AGREEMENT
BY AND AMONG
MARCHEX, INC.
SONAR TECHNOLOGIES, INC.
THE SELLERS AND
FORTIS ADVISORS LLC, AS SECURITYHOLDER REPRESENTATIVE
DATED DECEMBER 13, 2019**

ACTIVE/100901397.18

EXHIBITS

- A Securityholder Allocation Spreadsheet
- B Earnout Consideration
- C Escrow Agreement
- D Forms of Berman Executive Employment Agreement and other Executive Employment Agreements
- E Preliminary Net Working Capital and Indebtedness Schedule
- F Non-Competition Periods/Matters

EQUITY PURCHASE AGREEMENT

EQUITY PURCHASE AGREEMENT (the “Agreement”) dated as of December 13, 2019, by and among Marchex, Inc., a Delaware corporation (the “Buyer”), Sonar Technologies, Inc., a Delaware corporation (the “Company”), the stockholders and holders of Vested Options (as defined below) that are parties hereto (collectively the “Securityholders” or “Sellers” and each individually a “Seller”), and with respect to Section 1.4, Section 6.8, Article XI and as elsewhere referenced herein, Fortis Advisors LLC, a Delaware limited liability company (in such capacity, the “Securityholder Representative”).

WHEREAS, the Sellers own all of (a) the issued and outstanding shares in the capital of the Company (the “Shares”); and (b) all of the Company Options which are vested and exercisable as of immediately prior to the Closing (the “Vested Options” and together with the Shares, the “Company Equity Securities”) in such proportion, and in such amounts, as set forth on the Securityholder Allocation Schedule set forth on Exhibit A attached hereto;

WHEREAS, the Parties desire to enter into this Agreement pursuant to which the Buyer agrees to purchase from the Sellers, and the Seller agree to sell to the Buyer, all of the Shares, on the terms and subject to the conditions set forth in this Agreement; and

WHEREAS, the Sellers and the Buyer desire to consummate the proposed transaction pursuant to the terms and conditions hereinafter set forth.

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

ARTICLE I

PURCHASE AND SALE OF EQUITY

1.1 Purchase and Sale of Company Equity Securities. Upon the terms and subject to the conditions contained in this Agreement, at the Closing, the Sellers shall sell, assign, transfer and convey to the Buyer, and the Buyer shall purchase, acquire and accept from each Seller all of such Seller’s Company Equity Securities as set forth on Exhibit A, which shall in each case be free and clear of all Liens (other than restrictions under the Securities Act and other applicable securities Laws).

1.2 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 Sellers contained herein, and in consideration of the aforesaid sale, assignment, transfer and delivery of the Company Equity Securities, the Buyer will pay or issue, as the case may be, the following:

(a) at Closing, subject to Sections 1.4, 1.5 and 6.4, an amount of cash equal to Eight Million Five Hundred Thousand Dollars (\$8,500,000) (the “Upfront Cash Consideration”); provided, however, that the per-share consideration delivered to the holders of the Vested Options in consideration of their Vested Options shall be less the total exercise price for all such Vested Options of \$120,125 (the “Total Exercise Price”). [***].

(b) Four Million Dollars (\$4,000,000) in Buyer's Class B common stock ("Buyer Common Stock") (calculated based on the 10-day trailing average of Buyer's closing stock price on Nasdaq prior to December 12, 2019) (the "Equity Consideration"). Such Equity Consideration shall be issued to the Sellers in three (3) annual installments [***].

(c) Up to one Million Five Hundred Thousand Dollars (\$1,500,000) in Buyer Common Stock (calculated based on the 10-day trailing average of Buyer's closing stock price on Nasdaq prior to December 12, 2019) (the "Earnout Consideration"), subject to the achievement of target financial goals during the Earnout Period (as defined on Exhibit B) as set forth on Exhibit B attached hereto. Such Earnout Consideration to the extent earned and therefore payable hereunder shall be issued to the Sellers in two (2) equal annual installments as set forth on Exhibit B attached hereto [***].

(d) The Upfront Cash Consideration, the Equity Consideration and the Earnout Consideration (to the extent payable hereunder) in the aggregate shall constitute the "Purchase Price"; and

(e) Buyer Common Stock shall be valued for all purposes under this Agreement at its issuance price pursuant to Sections 1.2(b) as the case may be.

1.3 Distribution of Consideration. After payment of any Indebtedness and all fees and expenses incurred by the Company in connection with this Agreement in accordance with Section 6.4 of this Agreement and taking into account the Escrow Deposit per Section 1.5(a), the Expense Fund Amount per Section 6.8(f) and any adjustments per Section 1.4(a), at the Closing the Cash Consideration shall be wired to a single account designated by the Paying Agent for distribution to the Securityholders and the Noteholders in accordance with the Securityholder Allocation Spreadsheet. With respect to the Equity Consideration and the Earnout Consideration (to the extent payable hereunder), when payable and issuable pursuant to Section 1.2(b) or 1.2 (c) shall be delivered to the Paying Agent for distribution to the Securityholders in accordance with the Securityholder Allocation Spreadsheet. Notwithstanding anything to the contrary in this Section 1.3, none of the Buyer, the Company or any party hereto shall be liable for any amount properly paid to a public official in compliance with any applicable abandoned property, escheat or similar law. For U.S. federal income and applicable state and local tax purpose the parties intend that the Upfront Cash Consideration, the Equity Consideration and the Earnout Consideration be treated as consideration payable in respect of each Seller's Company Equity Securities and not be treated as compensation income. The parties shall file all Tax Returns in a manner consistent with the foregoing, and shall not take any Tax position that is otherwise inconsistent with the foregoing except as required by a change in applicable Law following the Closing Date.

1.4 Working Capital and Indebtedness Adjustment.

(a) Preliminary Net Working Capital and Indebtedness. At least three (3) business days prior to the Closing, the Company shall prepare and deliver to the Buyer a statement (the "Preliminary Net Working Capital and Indebtedness Schedule") of the estimated net Working Capital and cash (the "Preliminary Net Working Capital") and Indebtedness (the "Preliminary Closing Indebtedness") as of the Closing Date. Such Preliminary Net Working Capital and Indebtedness Schedule shall be determined in accordance with GAAP. [***].

(b) Final Net Working Capital and Indebtedness.

(i) [***], the Buyer shall prepare and deliver to the Securityholder Representative a statement (the “Final Net Working Capital and Indebtedness Schedule”) of the Working Capital and cash as of the Closing Date (the “Closing Net Working Capital”) and Indebtedness as of the Closing Date (the “Closing Indebtedness”). Such Final Net Working Capital and Indebtedness Schedule shall be determined in accordance with GAAP.

(ii) If the Securityholder Representative disagrees with such determination, the Securityholder Representative shall notify the Buyer on or before the date thirty (30) days after the date on which the Buyer delivers to the Securityholder Representative such statement of the Final Net Working Capital and Indebtedness Schedule. The Buyer and the Securityholder Representative shall attempt to resolve any such disagreements in good faith and the Buyer shall furnish the Securityholder Representative with reasonable documentation supporting its calculations in sufficient detail and itemization as to be reviewable by the Securityholder Representative. If the Buyer and the Securityholder Representative are unable to resolve all such disagreements on or before the date thirty (30) days following notification by the Securityholder Representative of any such disagreements, the Buyer shall retain a nationally recognized independent public accounting firm (such accounting firm being referred to as the “Final Accounting Firm”), to resolve all such disagreements, who shall adjudicate only those items still in dispute with respect to the Final Net Working Capital and Indebtedness Schedule.

(iii) The Final Accounting Firm shall offer the Buyer and the Securityholder Representative the opportunity to provide written submissions regarding their positions on the disputed matters, which written submissions shall be provided to the Final Accounting Firm, if at all, no later than fifteen (15) days after the date of referral of the disputed matters to the Final Accounting Firm. The determination of the Final Accounting Firm shall be based solely on the written submissions by the Buyer and the Securityholder Representative and their respective representatives and shall not be by independent review. The Final Accounting Firm shall deliver a written report resolving only the disputed matters and setting forth the basis for such resolution within thirty (30) days after the Buyer and the Securityholder Representative submit in writing (or have had the opportunity to submit in writing but have not submitted) their positions as to the disputed items. In preparing its report, the Final Accounting Firm shall not assign a value to any disputed amount other than one submitted by the Buyer, on the one hand, or the Securityholder Representative, on the other hand whichever amount is nearer to the Final Accounting Firm’s independent determination. The determination of the Final Accounting Firm with respect to the correctness of each matter in dispute shall be final and binding on the parties. The fees, costs and expenses of the Final Accounting Firm shall be borne entirely by the party as to whom there is a negative adjustment overall. The Final Accounting Firm shall conduct its determination activities in a manner wherein all materials submitted to it are held in confidence and shall not be disclosed to third parties. The parties hereto agree that judgment may be entered upon the determination of the Final Accounting Firm in any court having jurisdiction over the party against which such determination is to be enforced.

(c) [***].

(d) Earnout. The Buyer shall prepare and deliver to the Securityholder Representative, [***], a statement calculating whether the Financial Goals have been achieved (the “Earnout Statement”). If the Securityholder Representative disagrees with the Earnout Statement, such disagreement shall be subject to Sections 1.4(b)(ii) and (iii) above.

1.5 Escrow; Right of Offset.

(a) Buyer will deposit in escrow on behalf of the Sellers [***] (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 partial security for the indemnification obligations under Article X pursuant to the provisions of an Escrow Agreement (the “Escrow Agreement”) in the form of Exhibit C attached hereto. The Escrow Deposit shall be held by the Escrow Agent for a period ending on the twelfth (12) month anniversary of the Closing (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 evidenced by a Claim Notice delivered prior to the Escrow Release Date, but only so much of the Escrow Deposit as is reasonably necessary to satisfy the claims that have been evidenced by a Claim Notice. The Escrow Deposit shall be held and disbursed by the Escrow Agent in accordance with the Escrow Agreement.

(b) In addition to any rights now or hereafter granted under applicable law or otherwise and not by way of limitation of any such rights, the Buyer shall have the right to offset as provided in Section 11.4(d) below.

1.6 Closing. Unless this Agreement shall have been terminated and the transactions herein contemplated shall have been abandoned pursuant to Article IX and subject to the satisfaction or waiver of the conditions set forth in Articles VII and VIII, 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 VII and VIII, remotely via the electronic exchange of documents and signatures. The date of such Closing is referred to herein as the “Closing Date” and the effective time of such Closing for accounting purposes shall be 12:01 a.m. PST on such date.

1.7 Withholding. The Buyer (and any other applicable withholding agent) shall be entitled to deduct and withhold from the Purchase Price payable pursuant to this Agreement such amounts as the Buyer (or any other applicable withholding agent) is required to pay, deduct or withhold therefrom under any provision of federal, state, local or foreign Tax Law, including without limitation withholding Taxes if any; provided that Buyer shall provide the Securityholder Representative with reasonable advance written notice of any intention to withhold with respect to amounts payable to Sellers in respect of their Company Equity Securities prior to the Closing Date and the parties shall cooperate in good faith to reduce or eliminate any such withholding, except that such advanced notice shall not be required with respect to any Seller who fails to deliver an IRS Form W-9 providing evidence of exemption from backup withholding. To the extent such amounts are so paid, deducted or withheld and are remitted to the applicable Governmental Entity, 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

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

2.1 Corporate Organization.

The Company is a corporation duly organized, validly existing and in good standing under the Laws of the State of Delaware. The Company has all requisite corporate power and authority to own, operate and lease the properties and assets it now owns, operates and leases and to carry on the Company’s Business as presently conducted. The Company is duly qualified to transact business as a foreign corporation and is in good standing in the jurisdictions set forth in Schedule 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. The Company has previously delivered to the Buyer complete and correct copies of the certification of incorporation of the Company (certified by the Secretary of State for the State of Delaware as of a recent date) and the by-laws of the Company (certified by the Secretary of the Company as of a recent date). Neither the Company’s certificate of incorporation nor its by-laws have been amended since the date of certification thereof, nor has any action been taken for the purpose of effecting any amendment of such instrument.

2.2 Authorization. The Company has full corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement by the Company has been duly and validly authorized and approved by all necessary corporate actions. This Agreement constitutes the legal and binding obligation of the Company, enforceable against the Company 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 Company Equity Securities to the Buyer by the Securityholders, will not: (i) violate or conflict with any provision of the certificate of incorporation or by-laws, or other constitutive documents of the Company; (ii) breach, violate or constitute an event of default (or an event which with the lapse of time or the giving of notice or both would constitute an event of default) under, give rise to any right of termination, cancellation, modification or acceleration under, or require any consent or the giving of any notice under, any note, bond, indenture, mortgage, security agreement, lease, license, franchise, permit, agreement or other instrument or obligation to which the Company is a party, or by which the Company, or 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 Company Capital Structure.

(a) Immediately prior to the transactions contemplated hereunder, the authorized capital stock of the Company consists of (1) 15,000,000 shares of Company common stock, \$0.00001 par value per share (the “Company Common Stock”) of which 5,758,942 are issued and outstanding (which such amounts include the shares issuable upon the exercise of the Company Options on the Closing Date) and (2) 1,500,000 shares of Company founder FF preferred stock, \$0.00001 par value per share (the “Founder Preferred Stock”) and together with the Common Stock, the “Company Capital Stock”) 900,000 of which are issued and outstanding. The Company Capital Stock is held of record and to the Company’s knowledge, beneficially by the Persons with the addresses and in the amounts and represented by the certificates set forth on Schedule 2.4(a). All outstanding shares of Company Capital Stock (i) have been duly authorized and validly issued and are fully paid, non-assessable and not subject to preemptive rights or similar rights created by statute, the Company’s certificate of incorporation, by-laws or any agreement or document to which the Company is a party or by which it is bound, and (ii) have been offered, sold, issued and delivered by the Company in all material respects in compliance with all applicable Laws, including federal and state corporate and securities Laws. There are no declared or accrued but unpaid dividends with respect to any shares of Company Capital Stock. Since January 1, 2019, there have been no dividends or distributions with respect to any shares of Company Capital Stock or otherwise to any officer or director of the Company. Except as set forth above, as of the date of this Agreement no shares of Company Capital Stock, other equity securities, partnership interests or similar ownership interests or other voting securities of the Company or any securities exchangeable or convertible into, other equity securities, partnership interests or similar ownership interests or other voting securities of the Company, were issued, reserved for issuance or outstanding. Except as set forth on Schedule 2.4(a), there are no bonds, debentures, notes or other indebtedness of the Company having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which Securityholders of the Company may vote. Except as set forth on Schedule 2.4(a), the Company has never repurchased, redeemed or otherwise acquired or caused the repurchase, redemption or acquisition of any Company Capital Stock or other securities of the Company (other than repurchases of stock from Employees and consultants at cost pursuant to the terms of the Company Option Plan, as defined below), 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 Company Capital 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 the Securityholder Allocation Spreadsheet by any current or former Securityholder, option holder or warrant holder of the Company, or any other Person.

(i) Except for the Company's 2014 Stock Plan (the "Company Option Plan"), the Company has never adopted, sponsored or maintained any stock option plan or any other plan or agreement providing for equity compensation to any Person. The Company Option Plan has been duly authorized, approved and adopted by the Company's board of directors and the Securityholders and is in full force and effect. The Company has reserved for issuance to Employees of and consultants to the Company 4,578,000 shares of Company Capital Stock under the Company Option Plan, of which options to purchase 971,750 shares of Company Capital Stock have been granted and are outstanding (each, a "Company Option"). All outstanding Company Options have been offered, issued and delivered by the Company in all material respects in compliance with all applicable Laws, including federal and state corporate and securities Laws, and in compliance with the terms and conditions of the Company Option Plan. Schedule 2.4(a)(i) sets forth for each outstanding Company Option, the name of the holder of such option, the domicile address of such holder, an indication of whether such holder is an Employee of the Company, the date of grant or issuance of such option, the number of shares of Company Capital Stock subject to such option, the exercise price of such option, the vesting schedule for such option, including the extent vested on the date of this Agreement and whether and to what extent the exercisability of such option will be accelerated and become exercisable as a result of the transactions contemplated by this Agreement, and whether such Company Option is or is not intended to be an incentive stock option as defined in Section 422 of the Code.

(ii) The Company has no outstanding warrants ("Company Warrant") for the purchase of any equity of the Company.

(iii) Those securities of the Company which are convertible into Common Stock and are outstanding as of the Closing are listed on Schedule 2.4(a)(iii) (the "Company Convertible Securities").

(iv) Other than the Company Convertible Securities there are no Company Stock Rights or agreements of any character, written or oral, obligating the Company to issue, deliver, sell, repurchase or redeem, or cause to be issued, delivered, sold, repurchased or redeemed, any Company Capital Stock or equity or other ownership interest of the Company or obligating the Company to grant, extend, accelerate the vesting of, change the price of, otherwise amend or enter into any Company Stock Right. There are no outstanding or authorized equity appreciation, phantom equity, profit participation, or other similar rights with respect to the Company.

(b) Except for (1) the voting, right of first refusal, registration rights, Securityholder or similar agreements set forth in Schedule 2.4(b) (collectively, the "Investor Agreements"), (2) the Company Convertible Securities, and (3) rights of first refusal over transfers of the Company Capital Stock in favor of the Company, there are no (i) voting trusts, proxies, or other agreements or understandings with respect to the voting stock of the Company to which the Company is a party, by which the Company is bound, or of which the Company has knowledge, or (ii) agreements or understandings to which the Company is a party, by which the Company is bound, or of which the Company has knowledge relating to the registration, sale or transfer (including agreements relating to rights of first refusal, "co-sale" rights or "drag-along" rights) of any Company Capital Stock. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby and thereby does not implicate any rights or obligations under the Investor Agreements that have not been complied with or waived. The holders of shares of Company Capital Stock have been or will be properly given, or shall have properly waived, any required notice prior to the transactions contemplated therein.

2.5 Subsidiaries.

(a) The Company does not currently own or control, directly or indirectly, any interest in any other corporation, partnership, trust, joint venture, limited liability company, association, or other business entity.

2.6 Financial Statements; Business Information; Internal Controls.

(a) Attached hereto as Schedule 2.6(a) are (i) the unaudited balance sheets of the Company as of December 31, 2017 and 2018 and the statements of operations and cash flow for the fiscal periods then ended, and (ii) the unaudited balance sheet of the Company as of November 30, 2019 (the "Balance Sheet") and the statements of operations and cash flow of the Company for the eleven (11) month period then ended (hereinafter collectively referred to as the "Financial Statements"). The Financial Statements (i) have been prepared from the books and records of the Company, (ii) have been prepared in accordance with GAAP consistently applied during the periods covered thereby, and (iii) present fairly in all material respects the financial condition and results of operations of the Company as at the dates, and for the periods, stated therein, except that the interim Financial Statements are subject to normal year-end adjustments which will not be individually or in the aggregate material in amount or effect. For the purposes of this Agreement, generally accepted accounting principles shall mean generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board and rules promulgated by the 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 2.6(b) attached hereto sets forth certain statistics regarding the Company's Business including, but not limited to, information related to the Company's products, services and websites such as (i) reserved, (ii) total number of phone-numbers, number of toll-free numbers and number of local numbers in service with customers, average cost per minute, average cost of total phone-numbers (segregated by cost for voice enablement and text enablement), average cost of toll-free numbers (segregated by cost for voice enablement and text enablement) and average cost of local numbers (segregated by cost for voice enablement and text enablement), (iii) average length of calls, (iv) average cost per minute inbound to a Company number and outbound to a destination number, (v) average number of phone numbers augmented with third party lookup data (name, address, line type, carrier, or other demographic data) and average cost per lookup, (vi) list of all carriers with any phone numbers or calls or texts routed and counts of phone numbers enabled for voice and text for each carrier, (vii) average count of phone numbers enabled for texting, average quantity of messages sent and received segregated by each different SMS cost unit (e.g. inbound to a local phone number, outbound from a local phone number, inbound to a toll-free number, outbound from a toll-free number), and the average cost for each text sent or received, segregated by each different SMS cost unit (e.g. inbound to a local phone number, outbound from a local phone number, inbound to a toll-free number, outbound from a toll-free number), (viii) average quantity of phone numbers provisioned from carriers, ported into carriers, deactivated, and ported out from the Company and the average cost for each, and (ix) number of unique calls and unique texts, each for the months of August, September and October of 2019 (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 contained herein, the Company specifically acknowledges that the accuracy in all material respects of such Data is material to the Buyer's decision to enter into the transactions contemplated by this Agreement and to pay the Purchase Price.

(c) To the best of its knowledge, the Company has not directly or indirectly installed, imbedded or derived any traffic, leads or calls from any Spyware or Malware Software sources.

(d) The Company has in place systems and processes that are: (i) designed to (x) provide reasonable assurances regarding the reliability of the Financial Statements, and (y) in a timely manner accumulate and communicate to the Company's principal executive officer and principal financial officer the type of information that would be required to be disclosed in the Financial Statements; (ii) customary for a company at the same stage of development as the Company; and (iii) to the Company's knowledge, adequate for a company at the same stage of development as the Company. To the Company's knowledge, there have been no instances of fraud, whether or not material, which occurred during any period covered by the Financial Statements.

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

(f) During the period covered by the Financial Statements, the Company's external accountant was independent of the Company's and its management. The Company's revenue recognition policy is consistent with GAAP.

2.7 Absence of Undisclosed Liabilities. Except as set forth on Schedule 2.7 the Company is neither liable for nor subject to any material Liability except for (i) those Liabilities reflected on the Balance Sheet and not previously paid or discharged, (ii) contractual and other Liabilities incurred in the ordinary course of business which are not required by GAAP to be reflected on a balance sheet, which would not individually or collectively result in a Company Material Adverse Effect, and (iii) those Liabilities which have arisen since the date of the Balance Sheet in the ordinary course of business, which would not individually or collectively result in a Company Material Adverse Effect.

2.8 Absence of Certain Changes or Events. Except as set forth on Schedule 2.8 hereto, since December 31, 2018, 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 2.8 or as set forth or reserved against in the Balance Sheet, since December 31, 2018, the Company has not: (i) incurred any material obligation or Liability (whether absolute, accrued, contingent or otherwise) except in the ordinary course of the Company's 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 the Company's 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 or any bonus or service award or other like benefit, or instituted, increased, augmented or improved any Company Employee Plan other than in the ordinary course of business or as required by law; or (xii) entered into any agreement to do any of the foregoing.

2.9 Legal Proceedings. Except as set forth on Schedule 2.9, there are no suits, actions, claims, proceedings (including, without limitation, arbitral or administrative proceedings) or investigations pending or, to the knowledge of the Company, threatened against the Company, any of its properties, assets or 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 their capacities as such. 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, which is unsatisfied or which requires continuing compliance therewith by the Company. Schedule 2.9 hereto sets forth all settlements, judgments, orders, injunctions, decrees and awards entered into or imposed which the Company is a party to or by which the Company is bound, and the Company is and has been at all times in material compliance with the terms of such settlements, judgments, orders, injunctions, decrees and awards. Schedule 2.9 hereto sets forth all suits, actions, claims, proceedings or investigations regarding any equity security of the Company which the Company has ever been involved in or received notice of.

2.10 Taxes.

(a) The Company has properly and timely filed (taking into account all applicable extensions) all income Tax Returns and all material non-income Tax Returns required to be filed by it on or prior to the date hereof, and has in a timely manner paid all Taxes that are due, whether or not shown on such Tax Returns, except to the extent the Company has established adequate reserves in accordance with GAAP (excluding accruals and reserves for deferred Taxes established to reflect timing differences between financial accounting and taxable income) on the Balance Sheet for such Taxes. All such Tax Returns have been accurately and completely prepared in all material respects in compliance with all Laws. The Company has not incurred any Liability for Taxes since the date of the Balance Sheet other than in the ordinary course of business.

(b) There are no examinations, investigations, audits, actions, suits or proceedings currently being conducted, pending or, to the knowledge of the Company, threatened against the Company by any Taxing Authority, 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 Taxing 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 Taxing Authority have been paid or are being contested in good faith and have been disclosed in writing to the Buyer. There are no agreements or applications by the Company for an extension of time for the assessment or payment of any Taxes, nor is there any waiver of the statute of limitations in respect of Taxes. There are no Tax liens on any of the assets of the Company.

(c) The Company is not a party to or bound by or has any obligation under any Tax indemnity agreement, Tax sharing agreement (other than customary contracts entered into in the ordinary course of business the primary purpose of which is unrelated to Taxes), Tax allocation agreement or similar agreement or arrangement and the Company does not have any Liability for Taxes of any other Person under any applicable Law as transferee or successor, or by contract.

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

(e) The Company is not and has never been a “United States real property holding corporation” within the meaning of Section 897 of the Code.

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

(g) The Company is, and has been since the date of its formation, properly classified as a C corporation for U.S. federal (and applicable state) income tax purposes.

(h) The Company has not received any written ruling of a Taxing Authority relating to Taxes or entered in any written and legally binding agreement (excluding, for the avoidance of doubt, Tax Returns filed in the ordinary course of business) with a Taxing Authority relating to Taxes, including any closing agreements under Section 7121 of the Code.

(i) No written claim has ever been made to the Company by any Taxing Authority in a jurisdiction where the Company does not file Tax Returns that it is or may be subject to taxation by that jurisdiction.

(j) The Company does not have a permanent establishment or fixed place of business outside (i) the jurisdiction of its organization or (ii) the State of California.

(k) The Company has delivered or made available to the Buyer for inspection true and complete copies of (i) all private letter rulings, revenue agent reports, information document requests, audit reports, notices of proposed deficiencies, deficiency notices, protests, petitions, closing agreements, settlement agreements, pending ruling requests and any similar documents submitted by, received by or agreed to by or on behalf of the Company relating to Taxes for all taxable periods for which the applicable statute of limitations has not yet expired, and (ii) all federal, state, local and foreign income or franchise Tax Returns for the Company for all tax periods beginning on or after January 1, 2015.

(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 “reportable transaction” within the meaning of Treasury Regulations Section 1.6011(b).

(n) Each plan, program, arrangement or agreement that is a nonqualified deferred compensation plan within the meaning of Section 409A of the Code is identified as such on Schedule 2.10(n).

(o) Each plan, program, arrangement or agreement identified or required to be identified on Schedule 2.10(n) has been operated and maintained in compliance with Section 409A of the Code.

(p) The Company has not been a “distributing corporation” or a “controlled corporation” in connection with a distribution described in Section 355 of the Code.

(q) The Company will not be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any: (i) use of an incorrect method of accounting on or before the Closing Date or any change in method of accounting made on or before the Closing Date, including under Section 481 of the Code (or any corresponding or similar provision of state, local, non-U.S. or other law); (ii) any “closing agreement” as described in Section 7121 of the Code (or any corresponding or similar provision of state, local, non-U.S. or other law) executed prior to Closing; (iii) installment sale or open transaction disposition made on or prior to the Closing Date, or application of the completed contract method of accounting or the cash method of accounting to any transaction occurring on or prior to the Closing Date; (iv) prepaid amount, advanced payment or deferred revenue received or accrued on or prior to the Closing Date; (v) election under Section 108(i) of the Code or Section 965 of the Code (or any corresponding or similar provision of state, local, non-U.S. or other law); made prior to the Closing; (vi) application of Section 951, 951A or 965 of the Code to any interest held in a “deferred foreign income corporation” or in a “controlled foreign corporation” (as respectively defined in Sections 965 and 957 of the Code) with respect to income earned or recognized or payments received on or prior to the Closing Date; or (vii) ownership of “United States property” (as defined in Section 956 of the Code) by any “controlled foreign corporation” (as defined in Section 957 of the Code) on or prior to the Closing Date.

(r) The Company is in compliance, in all material aspects, with all applicable transfer pricing laws and regulations.

Notwithstanding anything in this Agreement to the contrary, the Company does not make any representation or warranty regarding the amount, value or condition of, or any limitation on, any Tax attribute of the Company, including capital loss carryforwards, net operating losses, Tax credits or Tax basis (each, a “Tax Attribute”) or the ability of Buyer or any of its Affiliates to utilize such Tax Attributes, with respect to any taxable period beginning after the Closing Date.

2.11 Title to Properties and Related Matters. (a) The Company has good and marketable title to, or a valid leasehold or licensed (as set forth on Schedule 2.11(a)) interest in, all of the Company's assets, and valid licenses for third-party-owned commercially available computer software and applications generally available to the public (none of which third-parties is a Related Person) which need not be separately scheduled, 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), (ii) liens for Taxes not yet due and payable, and (iii) Liens identified on Schedule 2.11(a)). All Company assets conform to all applicable Laws, statutes, ordinances, rules and regulations.

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

(c) Schedule 2.11(c) hereto sets forth a list, which is correct and complete in all material respects, of all equipment, machinery, instruments, vehicles, furniture, fixtures and other items of personal property currently owned or leased by the Company with a book value in each case of \$15,000 or more. Except as set forth on Schedule 2.11(c) hereto, all such personal property is in suitable operating condition (ordinary and reasonable wear and tear excepted) and is physically located in or about one of the places of business of the Company and is owned by the Company or is leased by the Company under one of the leases set forth in Schedule 2.11(d) hereto. None of such personal property is subject to any agreement or commitment for its use by any person other than the Company. The maintenance and operation of 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 Securityholders; (ii) the spouses and children of any of the Securityholders (collectively, "Near Relatives"); (iii) any trust for the benefit of any of the Sellers or any of their respective Near Relatives; or (iv) any corporation, partnership, joint venture or other entity or enterprise owned or controlled by the Sellers or by any of their respective Near Relatives.

(d) Schedule 2.11(d) sets forth a complete and correct list of all real property and personal property leases to which the Company is a party. The Company has previously delivered to the Buyer complete and correct copies of each lease (and any amendments or supplements thereto) listed in Schedule 2.11(d) hereto. Except as set forth on Schedule 2.11(d) hereto, (i) each such lease is valid and binding, and in full force and effect; except to the extent that applicable bankruptcy, reorganization, insolvency, moratorium or other Laws affecting the enforcement of creditors' rights may affect such validity or enforceability, (ii) neither the Company, nor to the knowledge of the Company any other party is in material default under any such lease, and no event has occurred which constitutes, or with the lapse of time or the giving of notice or both would constitute, a material default by the Company or to the knowledge of the Company a default by any other party under such lease; (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 2.11(d), there is no requirement under any such lease that the Company either obtain the lessor's consent to, or notify the lessor of, the consummation of the transactions contemplated by this Agreement.

(e) None of the computer software, computer hardware (whether general or special purpose), telecommunications capabilities (including all voice, data and video networks) and other similar or related items of automated, computerized, and/or software systems and any other networks or systems and related services that are used by or relied on by the Company in the conduct of the Business (collectively, the “Systems”) have experienced bugs, failures, or breakdowns in the past twelve (12) months that has caused any material disruption or material interruption in or to the use of any such Systems by the Company. The Company and its Affiliates are covered by business interruption insurance in scope and amount customary and reasonable to ensure the ongoing business operations of the Business.”

2.12 Intellectual Property; Proprietary Rights; Regulatory Compliance.

(a) Set forth on Schedule 2.12(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 or made available to the Buyer prior to the date hereof, all of which are valid and binding agreements of the parties thereto, enforceable in accordance with their terms. The Company and each of its Subsidiaries owns and has exclusive right, title and interest to, free of all liens, or (i) has exclusive license to, each item of Company Intellectual Property and (ii) 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. 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. The Company owns exclusively, and has good title to, all copyrighted works that are Company products or which the Company otherwise expressly purports to own. No university, government agency (whether federal or state) or other organization has sponsored research and development conducted by the Company or has any claim of right to or ownership of or other encumbrance upon the Company Intellectual Property.

(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 the Company or which adversely affects 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 2.12(c) hereto, all necessary affidavits of continuing use have been filed, and all necessary maintenance fees have been paid to continue all such rights in effect.

(d) To the extent that any Intellectual Property (including without limitation software, hardware, copyrightable works and the like) has been developed, created, modified or improved by a third party specifically 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 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 the Company's 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) 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 Company's Business as such business currently is conducted, including the 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 (but only to the extent created or developed by the Company prior to the Closing Date) 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 written notice or other claim from any third party that the operation of the Company's Business or any act, product or service of the Company or 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 confidentiality and assignment of inventions agreement substantially in the form provided to the Buyer, and all current and former employees and contractors of the Company has executed such an agreement. To the knowledge of the Company, all trade secrets and other confidential information of the Company is 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.

All Intellectual Property rights purported to be owned by the Company which were developed, worked on or otherwise held by any employee, officer, director, shareholder or consultant are owned free and clear by the Company by operation of Law or have been validly assigned to the Company and such assignments have been provided or made available to the Buyer and are valid binding agreements of the parties thereto, enforceable in accordance with their terms. Neither the Company or the Securityholders, 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 does not violate in any material respects any agreements or arrangements known to the Company which any such employees or consultants have with former employers or any other entity to whom such employees or consultants may have rendered consulting services.

(j) Schedule 2.12(j) lists all Open Source Materials that the Company has used in any way and describes the manner in which such Open Source Materials have been used by the Company in connection with the Company's Business, including, without limitation, whether and how the Open Source Materials have been modified and/or distributed by the Company. When Open Source Materials have been distributed by Company, Company has included all required attribution and notices in association with each distribution. [***], the Company has not (i) incorporated any Open Source Materials into, or combined Open Source Materials with, any products of the Company's Business, (ii) distributed Open Source Materials in connection with any products of the Company's Business, or (iii) used Open Source Materials that (with respect to either clause (i), (ii) or (iii) above) (A) create, or purport to create, obligations for the Company with respect to software developed or distributed by the Company, or (B) grant, or purport to grant, to any third party any rights or immunities under intellectual property rights. Without limiting the generality of the foregoing, the Company has not used any Open Source Materials that require, as a condition of use, modification and/or distribution of such Open Source Materials, that other software incorporated into, derived from or distributed with such Open Source Materials be (1) disclosed or distributed in source code form, (2) licensed for the purpose of making derivative works, or (3) redistributed at no charge.

(k) In connection with the operation of the Company's Business, the Company has complied for the past five years in all material respects with (i) all applicable legal and contractual requirements relating to privacy, commercial e-mail, data protection and security and the collection, storage, disclosure and/or use of personal information and user information (including information from or about children) gathered or accessed in the course of the operation of the Company's Business, and (ii) all rules, policies and procedures established by the Company with respect to privacy, publicity, commercial e-mail, data protection and security and the collection, storage, disclosure and/or use of personal information and user information (including information from or about children) gathered or accessed in the course of the operation of the Company's Business, and with respect to the foregoing, the Company has not received any notice from any person of any claims alleging any violation thereof nor has the Company been required by applicable Law to provide notice to any Person reporting the unauthorized access to or acquisition of personal information. In connection with the operation of the Company's Business, the Company has taken commercially reasonable steps (including implementing and monitoring compliance with measures with respect to technical and physical security) to ensure that the personal and user information gathered or accessed in the course of the operation of the Company's Business is protected against material loss and unauthorized access, use, modification or disclosure, and, to the knowledge of the Company, there has been no unauthorized access to or other misuse of any such information.

(l) The Company is not a “Covered Entity” or “Business Associate” as such terms are defined in the Health Insurance Portability and Accountability Act of 1996, as amended (“HIPAA”), and to the Company’s knowledge, the Company does not have or process any “protected health information” as such term is defined by HIPAA.

(m) The Company is in compliance in all material respects with the 1996 Telecommunications Act, the Telephone Consumer Protection Act, the Telemarketing Sales Rule, as amended, with all applicable Federal Communications Commission (“FCC”) and Federal Trade Commission (“FTC”) rules and regulations, and with the communications laws, and regulations of each state in which the Company operates or provides services to its customers (“Communications Laws”). The Company has not and will not operate as a telecommunications service provider, a common carrier, or a private carrier, as these terms are defined in the Communications Laws. The Company has not received any written communications from the FCC, the Universal Service Administrative Company (“USAC”) or a state-level regulatory authority suggesting that the Company is subject to regulation pursuant to the Communications Laws. The Company has not made any filings or registered with USAC. The Company is not required to make any contributions or pay any fees under the Communications Laws. The Company has not received any written communication from any company that provides wireless or wireline telecommunications capacity to the Company indicating that it is subject to regulation as a telecommunications service provider or are subject to filing and/or contribution obligations with USAC. The Company has not executed a reseller certificate, as the term is used in the Communications Laws, for any company that provides wireless or wireline telecommunications capacity to them. The Company has not received any written communication from the FCC or any other federal or state governmental entity in the United States alleging a violation of the Communication Laws.

2.13 Contracts. (a) Except as set forth on Schedules 2.13(a) hereto, the Company is not a party to, or subject to:

(i) Other than as set forth in response to subsection 2.13(a)(viii), 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 \$15,000;

(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 which is less than or equal to 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 2.13(a).

(b) The Company has previously provided or made available to the Buyer complete and correct copies (or, in the case of oral contracts, a complete and correct description) of any contract (and any amendments or supplements thereto) listed on Schedule 2.13(a) hereto. Except as set forth on Schedule 2.13(b) hereto, (i) each contract listed in Schedule 2.13(a) hereto is in full force and effect; (ii) neither the Company, nor to the knowledge of the Company, any other party is in default under any contract listed in Schedule 2.13(a) hereto, and no event has occurred which constitutes, or with the lapse of time or the giving of notice or both would constitute, a default by the Company or to the knowledge of the Company, a default by any other party under such contract; (iii) to the knowledge of the Company, there are no disputes or disagreements between the Company and any other party with respect to any contract listed in Schedule 2.13(a) hereto; and (iv) each other party to each such material contract has consented or been given notice (or prior to the Closing shall have consented or been given notice), where such consent or the giving of such notice is necessary in order for such contract to remain in full force and effect following the consummation of the transactions contemplated by this Agreement without modification in the rights or obligations of the Company.

(c) Except as set forth on Schedule 2.13(c) hereto, the Company has not issued any warranty or any agreement or commitment to indemnify any person other than in the ordinary course of business.

(d) Each of the contracts set forth on Schedules 2.13(a) hereto, is and always has been in compliance with all applicable Laws, including any and all Laws applicable to the Internet or the Company's Business, or any other Law, statute, ordinance, code, rule, regulation, judgment, order, injunction, writ or decree of any federal, state, local or foreign court or governmental or regulatory body, agency or authority having, asserting or claiming jurisdiction over it or over any part of the Company's Business, operations, properties or assets, except for any violation that would not have a Company Material Adverse Effect.

2.14 Employment Matters.

(a) Schedule 2.14(a) sets forth, (i) with respect to each Employee (including any Employee who is on a leave of absence of any nature, paid or unpaid, , including disability, family or other leave, sick leave, or on layoff status subject to recall) (A) the name of such Employee and the date as of which such Employee was originally hired by the Company, and whether the Employee is on an active or inactive status; (B) such Employee's title; (C) such Employee's salary or hourly wage rate, as applicable, , vacation and/or paid time off accrual amounts, bonus and/or commission potential, severance pay potential, and any other compensation forms; (D) whether such Employee is not fully available to perform work because of a qualified disability or other leave and, if applicable, the anticipated date of return to full service; (E) intentionally omitted; (F) the Company facility at which such Employee is deemed to be located; and (G) each current benefit plan in which such Employee participates or is eligible to participate; (ii) any governmental authorization, permit or license that is held by such Employee and that is used in connection with the Company's Business; and (iii) whether such Employee has executed the Company's standard form confidentiality and assignment of inventions agreement.

(b) Schedule 2.14(b) contains a list of individuals who are currently performing services for the Company and are classified as "consultants" or "independent contractors," the respective compensation of each such "consultant" or "independent contractor" and whether the Company is party to a consulting or independent contractor agreement with the individual. Any such agreements have been delivered or made available to the Buyer and are set forth on Schedule 2.14(b). Any Persons now or heretofore engaged by the Company as independent contractors, rather than Employees, have been properly classified as such, are not entitled to any compensation or benefits to which regular, full-time Employees are or were at the relevant time entitled, and were and have been engaged in accordance with all applicable Laws, and received the proper tax treatment for compensation received by them.

(c) Each employment agreement is set forth on Schedule 2.14(c) and a copy of each employment agreement and any amendment thereto has been provided or made available to the Buyer. Except as set forth in Schedule 2.14(c), the employment of each of the Employees is terminable by the Company at will (except for non-U.S. employees of the Company located in a jurisdiction that does not recognize the "at will" employment concept) and the Company does not have any obligation to provide any particular form or period of notice prior to terminating the employment of any of their respective employees, except as set forth on Schedule 2.14(c). The Company has not and to the knowledge of the Company, no other Person has, (i) entered into any agreement that obligates or purports to obligate the Buyer to make an offer of employment to any present or former Employee or consultant of the Company or (ii) promised or otherwise provided any assurances (contingent or other) to any present or former Employee or consultant of the Company of any terms or conditions of employment with the Buyer following the Closing.

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

(e) (i) None of the Employees has given the Company written notice terminating his or her employment with the Company or terminating his or her employment upon a sale of, or business combination relating to, the Company or in connection with the transactions contemplated by this Agreement; (ii) except as set forth on Schedule 2.14(e), the Company does not have a present intention to terminate the employment of any current Employee; and (iii) the Company is not, and has never been, engaged in any dispute or litigation with an Employee regarding intellectual property matters.

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

(g) The Company has not engaged and has never been engaged in any unfair labor practice of any nature, that, if adversely determined, would result in any material Liability to the Company. There has never been any slowdown, work stoppage, labor dispute or union organizing activity, or any similar activity or dispute, affecting the Company, or any Employees. There is not now pending and, to the Company's knowledge, no Person has threatened to commence, any such slowdown, work stoppage, labor dispute, union organizing activity or any similar activity or dispute.

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

(i) Except as set forth in Schedule 2.14(i), the Company has no established severance pay practice or policy. Except as set forth in Schedule 2.14(i), (i) the Company is not liable for any severance pay, bonus compensation, acceleration of payment or vesting of any equity interest, or other payments (other than accrued salary, bonus or commission, vacation, or other paid time off in accordance with the Company's policies) to any Employee arising from the termination of employment under any benefit or severance policy, practice, agreement, plan, program of the Company, applicable Law or otherwise; and (ii) as a result of or in connection with the transactions contemplated hereunder or as a result of the termination by the Company of any persons employed by the Company on or prior to the Closing Date, the Company will not have (A) any Liability that exists or arises under any Company benefit or severance policy, practice, agreement, plan, program, Law applicable thereto, including severance pay, bonus compensation or similar payment, or (B) to accelerate the time of payment or vesting, or increase the amount of or otherwise enhance any benefit due any Employee. Accordingly, as of the Closing Date, the Company shall have satisfied in full all of its obligations to such Employees, consultants and/or contractors for any severance pay, accelerated vesting, or any other payments whatsoever.

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

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

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

(m) Schedule 2.14(m) sets forth (i) each plan or agreement of the Company pursuant to which any amounts may become payable (whether currently or in the future including upon any future end of employment) to Employees of the Company as a result of or in connection with transactions contemplated by this Agreement and (ii) a summary of the nature and amounts by Employee that may become payable pursuant to each such agreement.

2.15 Employee Benefit Plans.

(a) Schedule 2.15(a) sets forth each Company Employee Plan.

(b) Documents. The Company has made available to the Buyer correct and complete copies of each Company Employee Plan, including all amendments thereto.

(c) Employee Plan Compliance. The Company has performed all material obligations required to be performed by it under each Company Employee Plan and each Company Employee Plan has been established and maintained in all material respects in accordance with its terms and in material compliance with all applicable Law, including ERISA and the Code. Each Company Employee Plan intended to qualify under Section 401(a) of the Code and each trust intended to qualify under Section 501(a) of the Code has received a favorable opinion letter from the IRS with respect to its qualified status under the Code on which it may rely or may rely on an opinion letter issued by the IRS with respect to a prototype plan adopted in accordance with the requirements for such reliance, or has time remaining for application to the IRS for a determination of the qualified status of such Employee Plan for any period for which such Employee Plan would not otherwise be covered by an IRS determination. There are no actions, audits, investigations, suits or claims pending, or, to the knowledge of the Company, threatened in writing (other than routine claims for benefits) against any Company Employee Plan or fiduciary thereto or against the assets of any Company Employee Plan.

(d) Plan Status. None of the Company or any ERISA Affiliate now, or has ever, maintained, established, sponsored, participated in, or contributed to, any plan which is subject to Title IV of ERISA or Section 412 of the Code or any retiree medical arrangement.

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

2.16 Compliance with Applicable Law. The Company is not in violation in any respect of any applicable privacy, data protection and security Law (including the EU General Data Protection Regulation), applicable Communications Laws, applicable safety, health or environmental Law, any Law applicable to the Company's Business, any Payment Card Industry Data Security Standards (PCI DSS) applicable to the Company, or any other Law, statute, ordinance, code, rule, regulation, judgment, order, injunction, writ or decree of any federal, state, local or foreign court or governmental or regulatory body, agency or authority having, asserting or claiming jurisdiction over it or over any part of the Company's Business, operations, properties or assets, except for any violation that would not have a Company Material Adverse Effect. The Company has not received any written notice alleging any such violation, and to the knowledge of the Company, there is no inquiry, investigation or proceeding relating thereto.

2.17 Ability to Conduct Business. There is no agreement, arrangement or understanding, nor any judgment, order, writ, injunction or decree of any court or governmental or regulatory body, agency or authority applicable to the Company or to which the Company is a party or by which it or any of its properties or assets is bound, that will prevent the use by the Buyer, after the Closing Date, of the properties and assets owned by, the business conducted by or the services rendered by the Company on the date hereof, in each case on substantially the same basis as the same are used, owned, conducted or rendered on the date hereof. The Company has in force, and is in compliance with, in all material respects, all governmental permits, licenses, exemptions, consents, authorizations and approvals used in or required for the conduct of the Company's Business as presently conducted, all of which shall continue in full force and effect, without requirement of any filing or the giving of any notice and without modification thereof, following the consummation of the transactions contemplated hereby. The Company has not received any 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.

2.18 Major Partners. Schedule 2.18 hereto sets forth complete and correct lists of each of the ten (10) largest customers and vendors (collectively, “Partners”) of the Company in terms of revenue recognized and payment by the Company thereto, respectively, in respect of such Partners during the twelve (12) months ended December 31, 2018 and the ten (10) months ended October 31, 2019, showing the amount of revenue recognized or payments thereto for each such Partner, as the case may be, during such period. To the knowledge of the Company, except as set forth on Schedule 2.18 hereto, the Company has not received any notice or other communication (written or oral) from any of the Partners listed in Schedule 2.18 hereto terminating, amending or reducing in any material respect, or setting forth an intention to terminate, amend or reduce in the future, or otherwise reflecting a material adverse change in, the business relationship between such Partner and the Company.

2.19 Insurance. Schedule 2.19 hereto sets forth a true and complete list of all insurance policies carried by the Company with respect to the Company’s Business, together with, in respect of each such policy, the name of the insurer, the number of the policy, the annual policy premium payable therefor, the limits of coverage, the deductible amount (if any), the expiration date thereof and each pending claim thereunder. The Company has maintained insurance covering it and its properties in such amounts against such hazards and Liabilities and for such purposes as is customary in the industry for companies of established reputation engaged in the same or similar businesses and owning or operating similar properties. Except as set forth on Schedule 2.19 hereto, all such policies are in full force and effect and such policies, or other policies covering the same risks, have been in full force and effect, without gaps, continuously for the past two (2) years. All premiums due thereon have been paid in a timely manner. Complete and correct copies of all current insurance policies of the Company have been made available to the Buyer for inspection. The Company is not in default under any of such policies, and the Company has not failed to give any notice or to present any claim under any such policy in a due and timely fashion. The Company does not have knowledge of any facts which would likely result in an insurer reducing coverage or increasing premiums on existing policies and to the Company’s knowledge, all such insurance policies can be maintained in full force and effect without substantial increase in premium or reducing the coverage thereof following the Closing. There is no claim pending under any of such policies as to which coverage has been questioned, denied or disputed by the underwriters of such policy.

2.20 Brokers; Payments. Except as set forth on Schedule 2.20, no broker, investment banker, financial advisor or other Person is entitled to any broker’s, finder’s, financial advisor’s or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company. The Company has suspended or terminated, and has the legal right to terminate or suspend, all negotiations and discussions of Acquisition Transactions with parties other than the Buyer. No valid claim exists against the Company or, based on any action by the Company, against the Buyer for payment of any “topping,” “break-up” or “bust-up” fee or any similar compensation or payment arrangement as a result of the transactions contemplated hereby.

2.21 Interested Party Transactions.

(a) Except as set forth on Schedule 2.21(a), to the Company's knowledge, no Related Person has or has had, directly or indirectly, (i) an economic interest in any Person which furnished or sold, or furnishes or sells, services or products that the Company furnishes or sells, or proposes to furnish or sell, or (ii) an economic interest in any Person that purchases from or sells or furnishes to, the Company, any goods or services or (iii) a beneficial interest in any agreement to which the Company is a party or by which they or their properties or assets are bound; provided, however, that ownership of no more than 1% of the outstanding voting stock of a publicly traded corporation shall not be deemed an "economic interest in any entity" for purposes of this Section 2.21.

(b) Except as set forth on Schedule 2.21(b), there are no receivables of the Company owed by any Related Person other than advances in the ordinary and usual course of business for reimbursable business expenses (as determined in accordance with the Company's established employee reimbursement policies and consistent with past practice). Except as set forth on Schedule 2.21(b), no Related Person has agreed to, or assumed, any obligation or duty to guaranty or otherwise assume or incur any obligation or Liability of the Company.

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

2.23 Absence of Questionable Payments. Neither the Company nor to the knowledge of the Company any of its directors, officers, agents, employees or any other Persons acting on their behalf has, in connection with the operation of the Company's Business, (i) used any corporation or other funds for unlawful contributions, payments, gifts or entertainment, or made any unlawful expenditures relating to political activity to foreign or domestic government officials, candidates or members of political parties or organizations or established or maintained any unlawful or unrecorded funds in violation of Section 104 of the Foreign Corrupt Practices Act of 1977, as amended, or any other similar applicable foreign, federal or state law; (ii) made any payment or provided services which were no legal to make or provide which the Company or any Affiliate thereof or any such officer, employee or other person should reasonably have known were not legal for the payee or the recipient of such services to receive; or (iii) paid, accepted or received any unlawful contributions, payments, expenditures or gifts.

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

2.25 Accounts Receivable. All receivables of the Company included in the Financial Statements are valid and collectible obligations and were not and are not subject to any written, or to the Company's knowledge, any oral, material offset or counterclaim and have arisen from bona fide transactions by the Company in the ordinary course of business consistent with past practice. The Company's receivables are reflected on the Balance Sheet included in the Financial Statements in accordance with GAAP applied on a basis consistent with past practice. Since December 31, 2018, there have not been any material write-offs as uncollectible of any of the Company's receivables. Schedule 2.25 sets forth a true and correct list of each account receivable of the Company (and the age of such receivable), as of November 30, 2019.

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

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE SELLERS

Each Seller, severally and not jointly, solely as to him, her or itself, represents and warrants to the Buyer as follows.

3.1 Authority; Binding Nature of Agreement. This Agreement and all other agreements, documents and instruments executed and delivered by the Seller pursuant hereto are valid and binding obligations of the Seller enforceable in accordance with their respective terms, except as such enforceability may be limited by applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and general principles of equity (whether considered in equity or at law). The Seller has full right, authority, power and capacity to enter into this Agreement and all other agreements, documents and instruments executed and delivered by the Seller pursuant hereto and to carry out the transactions contemplated hereby and thereby.

3.2 Non-Contravention; Consents. The execution, delivery and performance by the Seller of this Agreement and all other agreements, documents and instruments executed and delivered by the Seller pursuant hereto and the performance of the transactions contemplated by this Agreement and such other agreements, documents and instruments do not and will not: (i) violate or result in a violation of, conflict with or constitute or result in a violation of or default (whether after the giving of notice, lapse of time or both) under, accelerate any obligation under, or give rise to a right of termination of, any material contract, agreement, obligation, permit, license or authorization to which the Seller is a party or by which their assets are bound, or any provision of the Seller's organizational documents, if applicable; (ii) violate or result in a violation of, or constitute a default (whether after the giving of notice, lapse of time or both) under, any provision of any law, regulation or rule, or any order of, or any restriction imposed by, any court or Governmental Entity applicable to the Seller; or (iii) require from the Seller any notice to, declaration or filing with, or consent or approval of, any Governmental Entity or other third party.

3.3 Ownership. Immediately prior to the Closing, the Seller is the sole record and beneficial owner of the Company Equity Securities set forth opposite his, her or its name on Exhibit A attached hereto, free and clear of any Liens including Liens of spouses, former spouses and other family members. The Seller has the unqualified right and unrestricted power to enter into this Agreement and to convey to the Buyer the Company Equity Securities and at the Closing the Seller will convey to the Buyer good and valid title to the Company Equity Securities, which shall be free and clear of any and all Liens other than restrictions on transfer that may be imposed by applicable securities Laws. The Seller is not a party to, nor are any of the Seller's Company Equity Securities subject to (i) any option, warrant, purchase right, right of first refusal, call, put or other contract or agreement that would require the Seller to sell, transfer or otherwise dispose of the Seller's Company Equity Securities or (ii) any voting trust, proxy or other contract or agreement relating to the voting or disposition of the Seller's Company Equity Securities.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE BUYER

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

4.1 Corporate Organization. The Buyer is a corporation duly organized, validly existing and in good standing under the Laws of the State of Delaware. The Buyer has all requisite corporate power and authority to own, operate and lease the properties and assets the Buyer now owns, operates and leases and to carry on the Buyer's business as presently conducted. The Buyer is duly qualified to transact business as a foreign corporation and is in good standing in the jurisdictions where such qualification is required by reason of the nature of the properties and assets currently owned, operated or leased by the Buyer or the business currently conducted by it, except for such jurisdictions where the failure to be so qualified would not have a Buyer Material Adverse Effect. The 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 Buyer as of a recent date). Neither the certificate of incorporation nor the by-laws of the Buyer have been amended since the respective dates of certification thereof, nor has any action been taken for the purpose of effecting any amendment of such instruments.

4.2 Authorization. The Buyer has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement by the Buyer has been duly and validly authorized and approved by all necessary corporate action on the part of the Buyer. This Agreement constitutes the legal and binding obligation of the Buyer, enforceable against it 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 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 Buyer is party, or by which the Buyer or its properties or assets may be bound, or result in the creation of any lien, claim or encumbrance of any kind whatsoever upon the properties or assets of the 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 Buyer 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 Buyer or by which any of its properties or assets may be bound, except for such violations or conflicts which would not have a Buyer Material Adverse Effect; or (iv) require, on the part of the 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 Buyer Material Adverse Effect.

4.4 SEC Reports and Financial Statements. Since January 1, 2019, the Buyer has filed reports and made other filings with the SEC pursuant to the Securities Act and the Exchange Act, and the rules and regulations thereunder (such reports and other filings collectively referred to herein as the “SEC Filings”). The SEC Filings constitute all of the documents required to be filed by the Buyer under the Securities Act and Exchange Act since such date. All documents that are required to be filed as exhibits to the SEC Filings have been so filed, and all contracts so filed as exhibits are in full force and effect, except those which are expired in accordance with their terms, and neither the Buyer 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 Buyer 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 Buyer, (ii) were prepared in accordance with GAAP applied on a consistent basis, and (iii) present fairly the financial position of the Buyer 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 (A) were prepared from the books and records of the Buyer, (B) were prepared in accordance with GAAP on a consistent basis (except as may be indicated therein or in the notes or schedules thereto), and (C) present fairly the financial position of the Buyer 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.

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 Buyer.

4.6 Disclosure. The Buyer has not failed to disclose to the Company any fact that is reasonably more likely than not to have a Buyer Material Adverse Effect or impede or impair the ability of the Buyer to perform its obligations under this Agreement in any material respect. No representation or warranty by the Buyer contained in this Agreement and no statement contained, when considered together as a whole, in any of the Buyer Disclosure Schedules, and the certificates and other documents or instruments delivered or to be delivered pursuant to this Agreement by or on behalf of the 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 agrees that the Company, except as otherwise expressly contemplated by this Agreement, agreed to in writing by the Buyer, or required by applicable Law:

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

(b) will not declare or pay any dividend on or make any other distribution (however characterized) in respect of the Company Capital Stock or any other equity securities of the Company or otherwise to any officer or director of the Company;

(c) will not, directly or indirectly, redeem or repurchase, or agree to redeem or repurchase, directly or indirectly, any of the Company Capital Stock or any other equity securities of the Company, other than repurchases of unvested equity held by the Company's Employees and consultants at par value and in the ordinary course of business;

(d) will not amend its certificate of incorporation or by-laws;

(e) will not issue, or agree to issue, Company Capital Stock or any other equity securities of the Company, or any options, warrants or other rights to acquire the Company Capital Stock or any other equity securities of the Company, or any securities convertible into or exchangeable for the Company Capital Stock or any other equity securities of the Company;

(f) will not combine, split or otherwise reclassify any the Company Capital Stock or any other equity securities of the Company;

(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 \$15,000, (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 \$15,000 annually, (v) incur or guarantee any additional indebtedness for borrowed money other than in the ordinary course, (vi) create or permit to become effective any security interest, mortgage, lien, charge or other encumbrance on any of its properties or assets, or (vii) enter into any agreement to do any of the foregoing;

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

(k) will not accelerate receivables or delay payables;

(l) will promptly advise the Buyer of the commencement of, or threat of (to the extent that such threat comes to the knowledge of the Company) any claim, action, suit, proceeding or investigation (collectively, a “Claim”) against, relating to or involving the Company, or any of its respective, officers, directors, employees, agents, consultants or partners in their capacities as such in connection with the business of the Company or the transactions contemplated hereby and will not settle any Claim;

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

(n) will not enter into any agreement to dissolve, merge, consolidate or, sell any material assets of the Company (other than in the ordinary course) or acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial equity interest in or substantial portion of the assets of, or by any other manner, any business or any corporation, partnership or other business organization or division, or otherwise acquire or agree to acquire any assets in excess of \$15,000 in the aggregate; and

(o) will not adopt or change the method of Tax accounting of the Company for Tax purposes, make any Tax election, change any Tax election, enter any settlement or compromise of any Tax claim, audit, investigation, examination, or other proceeding or Liability with any Taxing Authority, amend any income Tax Return or other material Tax Return, voluntarily surrender any right to claim a refund or credit of Taxes, or incur any Liability for Taxes outside the ordinary course of business consistent with past practice, consent to any extension or waiver of the statute of limitations period applicable to any Tax claim, audit, investigation, examination, or other proceeding or assessment, enter into any Tax sharing, allocation, or indemnity agreement (excluding customary contracts entered into in the ordinary course of business the primary purpose of which is unrelated to Taxes), or initiate any voluntary disclosure or similar process or proceeding with respect to Taxes, in each case to the extent that such action could reasonably be expected to adversely affect the Buyer or its subsidiaries after the Closing (including the Company), without the advance written consent of the Buyer, such consent not to be unreasonably withheld, conditioned, or delayed;

(p) except for the Transaction Bonuses, will not make any payments to any Securityholders, officers, directors, agents, consultants or partners, other than in the ordinary course consistent with prior practice;

(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, except for the Transaction Bonuses, and except in the ordinary course of business;

(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 phone numbers or domain names (or enter into any agreement to do the foregoing) other than the provisioning of phone numbers to customers in the ordinary course of business without the Buyer's consent which shall not be unreasonably withheld or delayed.

5.2 Other Negotiations. Neither the Sellers, the Company (nor will the Company its officers, directors, employees, agents, consultants, partners and Affiliates on their behalf to) shall 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 the Buyer) regarding any acquisition of the Company, any merger or consolidation with or involving the Company or any acquisition of any material portion of the equity securities or assets of the Company or any equity or debt financing of the Company or any material license of Intellectual Property rights or any business combination, recapitalization, joint venture or other major transaction involving the Company's Business (any of the foregoing being referred to in this Agreement as an "Acquisition Transaction") or enter into an agreement concerning any Acquisition Transaction with any party other than the Buyer. If between the date of this Agreement and the termination of this Agreement pursuant to Article IX, the Company receives from a third party any offer to negotiate or consummate an Acquisition Transaction, the Company shall (i) notify the Buyer 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 the Buyer and the Buyer's accountants, counsel and other authorized advisors, with reasonable access, during business hours, to its premises and properties and its books and records (including, without limitation, contracts, leases, financial information, insurance policies, litigation files, minute books, accounts, working papers and Tax Returns filed and in preparation) and will cause its officers to furnish to the Buyer and the Buyer's authorized advisors such additional financial, tax and operating data and other information pertaining to the Company's Business as the Buyer shall from time to time reasonably request. All of such data and information shall be kept confidential by the Buyer, Company unless and until the transactions contemplated herein are consummated pursuant to the Confidentiality Agreement.

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 VII or Article VIII hereof.

6.4 Fees and Expenses. The parties shall each 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. If the Closing is consummated, then the Sellers shall pay directly or reimburse the Company for all such fees, costs and expenses incurred by the Company in connection with the transaction (including the Transaction Bonuses) out of the Upfront Cash Consideration to the extent not taken into account in determining the Company's Working Capital at Closing. To the extent any such fees, costs and expenses as well as any Indebtedness are not accounted for at the Closing, the Buyer shall have the right to reimbursement and offset them against the Escrow Deposit, and/or the Equity Consideration.

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) In the case of Taxes that are payable with respect to any Straddle Period, the portion of any such Taxes that are treated as Taxes attributable to a Pre-Closing Tax Period for purposes of this Agreement shall be:

(i) in the case of Taxes (x) based upon, or related to, income, receipts, profits, wages, capital or net worth, (y) imposed in connection with the sale, transfer or assignment of property, or (z) required to be withheld, deemed equal to the amount which would be payable if the taxable year of the Company ended with the Closing Date; and

(ii) in the case of other Taxes (such as property Taxes and other periodic Taxes), deemed to be the amount of such Taxes for the entire period multiplied by a fraction the numerator of which is the number of days in the period ending on the Closing Date and the denominator of which is the number of days in the entire period.

(b) Buyer shall prepare, or cause to be prepared, at the expense of Sellers and shall timely file, or cause to be timely filed, all Buyer Prepared Returns. Such Buyer Prepared Returns shall be prepared consistent with past practices to the extent in accordance with Law. Any Buyer Prepared Return shall be submitted by Buyer to the Securityholder Representative (together with schedules, statements and, to the extent requested by the Securityholder Representative, reasonable supporting documentation) at least thirty (30) days prior to the due date (including extensions) of such Buyer Prepared Return (or if such Buyer Prepared Return is due within thirty (30) days of the Closing Date, reasonably in advance of the due date of such Buyer Prepared Return to allow sufficient time for the Securityholder Representative's review). If the Securityholder Representative objects to any item on any such Buyer Prepared Return, the Securityholder Representative shall, within ten (10) days after delivery of such Buyer Prepared Return, notify Buyer in writing that the Securityholder Representative so objects, specifying with particularity any such item and stating the specific factual or legal basis for any such objection. If a notice of objection shall be duly delivered, Buyer and the Securityholder Representative shall negotiate in good faith and use their commercially reasonable efforts to resolve such items. If Buyer and the Securityholder Representative are unable to reach such agreement within ten (10) days after receipt by Buyer of such notice, the disputed items shall be resolved by the Final Accounting Firm and any determination by the Final Accounting Firm shall be final. The Final Accounting Firm shall resolve any disputed items within twenty (20) days of having the item referred to it pursuant to such procedures as it may require. If the Final Accounting Firm is unable to resolve any disputed items before the due date for such Buyer Prepared Return, the Buyer Prepared Return shall be filed as prepared by Buyer and then amended to reflect the Final Accounting Firm's resolution to the extent necessary. The costs, fees and expenses of the Final Accounting Firm shall be borne one half by Buyer and one half by the Sellers. The Sellers shall be solely responsible for and shall timely pay when due any Indemnified Taxes relating to such Buyer Prepared Returns.

(c) Following the Closing Date, the Buyer shall promptly notify the Securityholder Representative in writing upon receipt by Buyer of written notice from any Taxing Authority of the commencement of any Tax Contest provided that any failure to provide such notification to the Securityholder Representative shall not affect the Sellers' indemnification obligation under this Agreement except to the extent that the Sellers are actually prejudiced thereby. The Securityholder Representative shall have fifteen (15) days following its receipt of notice from the Buyer of such Tax Contest to elect in writing (through delivery of such written election to the Buyer) to control (at the Sellers' cost and expense) any Tax Contest that (A) relates solely to income Tax Returns of the Company for any taxable period ending on or before the Closing Date, and (B) could not reasonably be expected to adversely affect the Company, the Buyer or any Affiliate of any of the foregoing with respect to any taxable period ending after the Closing Date (as reasonably determined by the Buyer); provided, that (I) the Securityholder Representative will control such Tax Contest diligently and in good faith, (II) the Buyer shall have the right to (a) receive notice and copies of all correspondence and otherwise to be reasonably apprised of the initiation and status of any such Tax Contest, (b) receive copies of and to comment on any written materials in connection therewith, including due consideration by the Securityholder Representative in good faith with respect to any such comments, (c) be present at and participate fully in any meetings, conferences, proceedings or appearances with respect to such Tax Contest and (d) obtain separate counsel, at the Buyer's expense, with respect to such Tax Contest, and (III) the Securityholder Representative shall not consent to the entry of any judgment with respect to such Tax Contest or enter into any settlement with respect to such Tax Contest (or otherwise compromise such Tax Contest) without the prior written consent of the Buyer (which consent shall not be unreasonably withheld, conditioned or delayed). The Buyer shall control all aspects of each Tax Contest other than any Tax Contest conducted by the Securityholder Representative in accordance with this Section 6.6(d); provided that, (I) the Buyer will control such Tax Contest diligently and in good faith, (II) the Securityholder Representative shall have the right to (a) receive notice and copies of all correspondence and otherwise to be reasonably apprised of the initiation and status of any such Tax Contest, (b) receive copies of and to comment on any written materials in connection therewith, including due consideration by the Buyer in good faith with respect to any such comments, (c) be present at and participate fully in any meetings, conferences, proceedings or appearances with respect to such Tax Contest and (d) obtain separate counsel, at the Sellers' expense, with respect to such Tax Contest, and (III) the Buyer shall not consent to the entry of any judgment with respect to such Tax Contest or enter into any settlement with respect to such Tax Contest (or otherwise compromise such Tax Contest) without the prior written consent of the Securityholder Representative (which consent shall not be unreasonably withheld, conditioned or delayed). In the event of any conflict between the provisions of this Section 6.6(d) and any other provision of this Agreement, the provisions of this Section 6.6(d) shall control.

(d) Nothing in this Agreement shall preclude or prevent the Buyer, its Affiliates or (including, following the Closing Date, the Company) from (i) filing or submitting a Tax Return, or paying or collecting a Tax, in a jurisdiction in which an Company has not previously filed a Tax Return or paid a Tax, (ii) from filing or submitting a type of Tax Return, or paying or collecting a type of Tax, in a jurisdiction in which an Acquired Company has previously filed or submitted a Tax Return or paid or collected a Tax, but not the type to be filed, submitted, paid or collected, (iii) amending or modifying any Tax Return in a jurisdiction in which an Company has previously filed or submitted a Tax Return to the extent necessary to comply with applicable Law, or (iv) taking any reasonable action to mitigate any noncompliance with applicable Law (including through the utilization of a voluntary disclosure process, agreement or similar program with respect to any applicable taxable period). In the event the Buyer files or submits, or causes an Acquired Company to file or submit, any Tax Return, or pay or collect any Tax, in a jurisdiction in which an Acquired Company has not previously filed a Tax Return (or the type of Tax Return), or paid or collected a Tax (or the type of Tax), and the filing of such Tax Return or payment or collection of such Tax causes, in whole or in part, the applicable Taxing Authority to audit, examine or otherwise investigate any Acquired Company with respect to any Pre-Closing Tax Period or otherwise results in the assessment or imposition of any Taxes with respect to any Pre-Closing Tax Period, nothing in this Agreement shall be construed to excuse or limit any obligation of the Sellers to provide indemnification with respect to any Taxes or other Losses with respect thereto.

6.7 Financial Statements. At the request of the Buyer at any time following the Closing, the Sellers shall use best efforts and shall cooperate to facilitate an audit and/or review by the Company's independent auditor of the financial statements of the Company for the periods as requested by the Buyer (collectively, the "Audit") to be completed promptly to the Buyer's reasonable satisfaction at the Buyer's sole expense. The Sellers shall deliver a customary management representation letter in connection with the completion of such Audit within two (2) business days of request. The Sellers agree as requested by the Buyer from time to time, after the Closing Date to use best efforts to assist the Buyer in promptly obtaining the consent of the Company's independent auditor to include such auditor's report on the foregoing in any and all of the Buyer's SEC filings.

6.8 Appointment of Securityholder Representative.

(a) By virtue of the approval of this Agreement by the Securityholders and without any further action of any of the Securityholders or the Company, the Securityholder Representative is hereby appointed as representative and attorney-in-fact and exclusive agent of the Securityholders for purposes of this Agreement and the Escrow Agreement. The Buyer may rely upon the acts of the Securityholder Representative for all purposes permitted hereunder.

(b) The Securityholder Representative shall have full power of substitution to act in the name, place and stead of the Securityholders in all matters in connection with this Agreement, the Escrow Agreement or the Securityholder Representative Engagement Agreement. The Securityholder Representative's power shall include the following powers, without limitation: the power to act for the Securityholders with regard to indemnification obligations hereunder; the power to compromise any claim on behalf of the Securityholder and to transact matters of litigation or arbitration in connection with this Agreement; the power to do or refrain from doing all such further acts and things on behalf of the Securityholder that the Securityholder Representative deems necessary or appropriate in its sole discretion, and to execute all such documents as the Securityholder 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. The powers, immunities and rights to indemnification granted to the Securityholder Representative Group hereunder: (i) are coupled with an interest and shall be irrevocable and survive the death, incompetence, bankruptcy or liquidation of any Securityholder and shall be binding on any successor thereto, and (ii) shall survive the delivery of an assignment by any Securityholder of the whole or any fraction of his, her or its interest in the Escrow Fund. All actions taken by the Securityholder Representative under this Agreement, the Escrow Agreement or the Securityholder Representative Engagement Agreement shall be binding upon each Securityholder and such Securityholder's successors as if expressly confirmed and ratified in writing by such Securityholder, and all defenses which may be available to any Securityholder to contest, negate or disaffirm the action of the Securityholder Representative taken in good faith under this Agreement, the Escrow Agreement or the Securityholder Representative Engagement Agreement are waived.

(c) If the Securityholder Representative dies, resigns or otherwise becomes incapacitated and unable to serve as Securityholder Representative, its successor shall be appointed by a majority in interest of the Sellers (such majority in interest to be determined in accordance with the pro rata amounts of the Company Equity Securities as set forth on Exhibit A hereto). The immunities and rights to indemnification shall survive the resignation or removal of the Securityholder Representative or any member of the Advisory Group and the Closing and/or any termination of this Agreement and the Escrow Agreement.

(d) The Securityholder Representative shall act for the Securityholder in the manner the Securityholder Representative believes to be in the best interest of the Securityholder and consistent with its obligations under this Agreement, but shall have no duties or obligations except as specifically set forth in this Agreement, in the Escrow Agreement and in the Securityholder Representative Engagement Agreement, and for purposes of clarity, there are no obligations of the Securityholder Representative in any ancillary agreement, schedule, exhibit or the Company Disclosure Schedules. In acting as representative of the Securityholder, the Securityholder 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 it to be genuine and to have been signed or presented by the proper party or parties. The Securityholder Representative shall be entitled to: (i) rely upon the Securityholder Allocation Spreadsheet, (ii) rely upon any signature believed by it to be genuine, and (iii) reasonably assume that a signatory has proper authorization to sign on behalf of the applicable Securityholder or other party.

(e) Certain Securityholders have entered into an engagement agreement (the “Securityholder Representative Engagement Agreement”) with the Securityholder Representative to provide direction to the Securityholder Representative in connection with its services under this Agreement, the Escrow Agreement and the Securityholder Representative Engagement Agreement (such Securityholders, including their individual representatives, collectively hereinafter referred to as the “Advisory Group”). Neither the Securityholder Representative nor its members, managers, directors, officers, contractors, agents and employees nor any member of the Advisory Group (collectively, the “Securityholder Representative Group”), shall be personally liable to any Securityholder for any action taken, suffered or omitted by it in good faith and reasonably believed by it to be authorized or within the discretion of the rights or powers conferred upon it by this Agreement, the Escrow Agreement and the Securityholder Representative Engagement Agreement. The Securityholder 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 it in such capacity in good faith and in accordance with such opinion of counsel. The Securityholder Representative may perform its duties as Securityholder Representative either directly or by or through its agents or attorneys, and the Securityholder Representative shall not be responsible to the Securityholders for any misconduct or negligence on the part of any agent or attorney appointed with due care by it under this Agreement. No bond shall be required of the Securityholder Representative, and the Securityholders jointly and severally shall indemnify, defend and hold harmless the Securityholder Representative Group from and against any and all losses, claims, damages, liabilities, fees, costs, expenses (including fees, disbursements and costs of counsel and other skilled professionals and in connection with seeking recovery from insurers), judgments, fines or amounts paid in settlement (collectively, the “Securityholder Representative Expenses”) with respect to any and all decisions made or actions taken in the capacity as Securityholder Representative, other than for the Securityholder Representative’s willful misconduct or gross negligence. Such Securityholder Representative Expenses may be recovered first, from the Expense Fund, second, from any distribution of the Escrow Fund otherwise distributable to the Securityholders at the time of distribution, and third, directly from the Securityholders. The Securityholders acknowledge that the Securityholder Representative shall not be required to expend or risk its own funds or otherwise incur any financial liability in the exercise or performance of any of its powers, rights, duties or privileges or pursuant to this Agreement, the Escrow Agreement, the Securityholder Representative Engagement Agreement or the transactions contemplated hereby or thereby. Furthermore, the Securityholder Representative shall not be required to take any action unless the Securityholder Representative has been provided with funds, security or indemnities which, in its determination, are sufficient to protect the Securityholder Representative against the costs, expenses and liabilities which may be incurred by the Securityholder Representative in performing such actions.

(f) Upon the Closing, Buyer shall wire to the Securityholder Representative \$[***] (the "Expense Fund Amount"). The Expense Fund Amount shall be held by the Securityholder Representative in a segregated client account and shall be used (i) for the purposes of paying directly or reimbursing the Securityholder Representative for any Securityholder Representative Expenses incurred pursuant to this Agreement, the Escrow Agreement or the Securityholder Representative Engagement Agreement, or (ii) as otherwise determined by the Advisory Group (the "Expense Fund"). The Securityholder Representative is not providing any investment supervision, recommendations or advice and shall have no responsibility or liability for any loss of principal of the Expense Fund other than as a result of its gross negligence or willful misconduct. The Securityholder Representative is not acting as a withholding agent or in any similar capacity in connection with the Expense Fund, and has no tax reporting or income distribution obligations. The Securityholders will not receive any interest on the Expense Fund and assign to the Securityholder Representative any such interest. Subject to Advisory Group approval, the Securityholder Representative may contribute funds to the Expense Fund from any consideration otherwise distributable to the Securityholders. As soon as reasonably determined by the Securityholder Representative that the Expense Fund is no longer required to be withheld, the Securityholder Representative shall distribute the remaining Expense Fund (if any) to the Paying Agent and/or Escrow Agent, as applicable for further distribution to the Securityholders.

6.9 Termination of Investor Agreements. Effective as of the Closing, all Investor Agreements shall be terminated.

6.10 Reserved.

6.11 Employment of Company Employees.

(a) Buyer or one of its Affiliates (the actual employing entity, whether Buyer or an Affiliate of Buyer, as determined in Buyer's discretion, the "Employer") agrees to cause the Employer to provide those Persons which are Employees of the Company on the date immediately preceding the Closing Date salary and benefits (but excluding incentive equity benefits) on terms materially no less favorable in the aggregate than the salary and benefits (excluding equity incentive benefits) offered to employees as of the day immediately prior to the Closing Date.

(b) The Employer will use commercially reasonable efforts to treat, and will use commercially reasonable efforts to cause the applicable benefit plans to treat, the service of the Employees with the Company attributable to any period before the Closing Date as service rendered to the Employer for purposes of eligibility and vesting under any of the Employer's vacation program, health or welfare plan(s) maintained by the Employer, and the Employer's defined contribution plans, if any, except where credit would result in duplication of benefits.

(c) Nothing in this Agreement shall confer upon any Employee any right to continue in the employ or service of Employer or any Affiliate of Employer, or shall interfere with or restrict in any way the rights of Employer, which rights are hereby expressly reserved, to discharge or terminate the services of any Employee at any time for any reason whatsoever, with or without cause. Notwithstanding any provision in this Agreement to the contrary, nothing in this Section 6.11 shall (i) be deemed or construed to be an amendment or other modification of any Company employee benefit plan or Employer employee benefit plan, or (ii) create any third party rights, including third party beneficiary rights, in any current or former Employee, contractor, director or other service provider of Employer, the Company or any of their respective Affiliates (or any beneficiaries or dependents thereof).

6.12 Certain Deliveries. As soon as practicable after the date hereof, the Company will deliver to Buyer a flash drive containing a complete and accurate (as of the date hereof) electronic copy of the “data room”.

ARTICLE VII

COVENANTS OF THE SELLERS

Each Seller hereby agrees that for the period for such respective Seller set forth on Exhibit F attached hereto that he, she or it will not, directly or indirectly, alone or as a member, manager, partner, officer, director, employee, consultant, agent, independent contractor or Securityholder 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 one percent (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 as it exists as of the Closing Date [***] (“Competitive Activity”). Each Seller agrees that, [***] 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, knowingly solicit in connection with, or in furtherance of, a Competitive Activity any of (a) the employees, consultants agents or suppliers of the Company, that were such at any time during the [***] immediately preceding the date hereof; or (b) the customers of the Company, except as set forth on Exhibit F.

ARTICLE VIII

CONDITIONS TO THE OBLIGATIONS OF THE BUYER

The obligation of the 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 Buyer in its sole discretion):

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

8.2 Performance. The Company and the Sellers 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 he, she or it on or prior to the Closing Date, and at the Closing the Company shall have delivered to the Buyer a certificate (duly executed on behalf of the Company by its Chief Executive Officer) to that effect with respect to all such obligations required to have been performed or complied with by the Company and the Sellers 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 or the Securityholders which is reasonably likely to 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. The Buyer's purchase of and payment for the Company Equity Securities (i) shall not be prohibited by any applicable Law or governmental order, rule, ruling, regulation, release or interpretation, (ii) shall not subject the Buyer to any material penalty, Liability or, in the reasonable judgment of the 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 the Buyer is subject.

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

8.6 Consents. All approvals, consents (including contractual consents), licenses, permits, orders, waivers and authorizations required to be obtained by the Company or the Securityholders in connection with the transactions contemplated by this Agreement and the sale of the Company Equity Securities 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 the Buyer:

(a) Berman Executive Employment Agreement and the other Executive Employment Agreements in the forms attached hereto as Exhibit D, duly executed by Matthew Berman, [***];

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

(c) the Company shall deliver to Buyer a duly executed certification that the Company is not, and has not been at any time during the preceding five (5) years from the Closing Date, a United States real property holding corporation within the meaning of Section 897 of the Code, along with an accompanying notice to the Internal Revenue Service;

(d) Each Seller shall deliver to Buyer a properly completed and executed IRS Form W-9 on the Closing and prior to any payment of the Purchase Price; and

(e) the Escrow Agreement duly executed by the Securityholder Representative.

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 Supporting Documents. The Company and the Sellers shall have delivered to the Buyer a certificate (i) of the Secretary of State of the State of Delaware dated as of the Closing Date or within three (3) business days prior to the Closing Date, certifying as to the 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 the Company, as in effect on the date of such certification; (y) that attached thereto is a true and complete copy of adopted by the board of directors, authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby; and (z) to the incumbency and specimen signature of each officer of the Company, executing on behalf of the company this Agreement and the other agreements related hereto; and (iii) satisfactory evidence that tax good standings, waivers of state tax liens and state clearance certificates from each such jurisdiction in which the Company does business has been applied for, and in lieu of each such certificate, the Company will provide to the Buyer written evidence as to the absence of any such liens which will be certified by the Company's Treasurer.

8.10 Release of Liens. The Company shall have obtained to the satisfaction of the Buyer, binding payoff letters (which shall include releases) or releases from creditors needed to terminate any security interests in the Company, if any, and including under any lines of credit. In the event Company furnishes a payoff letter, Buyer may remit the amount of the payoff to the creditor furnishing the payoff letter and reduce the Cash Consideration by the amount of the payoff remitted.

8.11 Securityholder Allocation Spreadsheet. The Buyer shall have received the Securityholder Allocation Spreadsheet.

8.12 Preliminary Net Working Capital and Indebtedness Schedule. The Buyer shall have received the Preliminary Net Working Capital and Indebtedness Schedule in the form attached hereto as Exhibit E.

8.13 Payoff of Company Notes. The Company shall have provided evidence of payoff in full of all Noteholders pursuant to Section 1.3 and any other Indebtedness of the Company along with releases by such holders of the Company and Buyer from any further Liability in form and substance acceptable to the Buyer in its sole discretion.

ARTICLE IX

CONDITIONS TO THE OBLIGATIONS OF THE COMPANY AND THE SELLERS

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

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

9.2 Performance. The 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 Buyer shall have delivered to the Company and the Sellers a certificate (signed on its behalf by its Chief Financial Officer) 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 Buyer which would have a material adverse effect on the transactions contemplated hereby or is reasonably likely to result in a Buyer Material Adverse Effect.

9.4 Consents. All approvals, consents, licenses, permits, orders, waivers and authorizations required to be obtained by the Buyer in connection with the transactions contemplated by this Agreement and the sale of the Company Equity Securities shall have been obtained and shall be in full force and effect.

9.5 Additional Agreements. The Buyer shall have executed and delivered:

(a) counterparts of the Berman Executive Employment Agreement and the other Executive Employment Agreements to the executives who are parties thereto; and

(b) the Escrow Agreement to the Securityholder Representative

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

9.7 Purchase Price. At the Closing, the Buyer shall distribute the Upfront Cash Consideration in accordance with Section 1.3 (and provide evidence reasonably satisfactory to the Sellers of having made the Escrow Deposit).

9.8 Supporting Documents. The Buyer shall have delivered to the Company and the Securityholders (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 the Buyer, and (ii) a certificate of the Secretary of the Buyer, dated the Closing Date, certifying on behalf of the Buyer (w) that attached thereto is a true and complete copy of the Certificate of Incorporation of the Buyer, as in effect on the date of such certification; (x) that attached thereto is a true and complete copy of the By-Laws of the 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 the 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 Buyer executing on behalf of the 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 Buyer;

(b) by either the Company or the Buyer:

(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 [***] days after the date of this Agreement, 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 and the 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, [***] harmless from, and to reimburse the Buyer for, any Losses directly or indirectly arising out of, based upon or resulting from (i) any inaccuracy in or breach of any representation or warranty of the Company set forth in Article II of this Agreement or any Schedule or certificate delivered by the Company pursuant hereto; (ii) any inaccuracy in or breach of any representation or warranty of the Sellers set forth in Article III of this Agreement or any Schedule or certificate delivered by the Sellers pursuant hereto; (iii) any breach or nonfulfillment of, or any failure to perform, any of the covenants, agreements or undertakings of the Company or the Sellers 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; (iv) any Indebtedness, fees and expenses pursuant to Section 6.4 and Indemnified Taxes and (v) any claims by any current or former holder of any equity interest or equity security of the Company (including any predecessors), including any Company Capital Stock, Company Options, Company Warrants or other Company Stock Rights, relating to or arising out of this Agreement and the transactions contemplated hereby, including any Losses due to any inaccuracy or incompleteness of the Securityholder Allocation Spreadsheet or Exhibit A to the Exchange Agent Agreement with the Paying Agent (including any Third Party Claim to any portion of the Purchase Price).

(b) The Buyer agrees to indemnify and hold the Sellers (including their respective representatives and Affiliates) harmless from, and to reimburse the Sellers for, any Losses directly or indirectly arising out of, based upon or resulting from (i) any inaccuracy in or breach of any representation or warranty of the Buyer set forth in Article IV of this Agreement or any Schedule or certificate delivered by the Buyer pursuant hereto; and (ii) any breach or nonfulfillment of, or any failure to perform, any of the covenants, agreements or undertakings of the Buyer which are contained in this Agreement or any agreement entered into in connection herewith.

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 Buyer shall seek indemnity pursuant to Section 11.1, the Buyer shall provide the Securityholder Representative with prompt written notice (a "Claim Notice") of such event and shall otherwise promptly make available to the Securityholder Representative, all relevant information which is material to the claim and which is in the possession of the indemnified party. The Buyer's failure to give a timely Claims Notice or to promptly furnish the Securityholder Representative, with any relevant data and documents in connection with any Third-Party Claim shall not constitute a defense (in part or in whole) to any claim for indemnification by such party, except and only to the extent that such failure shall result in any prejudice to the indemnifying party.

(b) The Securityholder Representative shall have the right to elect to join in, through counsel of its choosing reasonably acceptable to the Buyer, 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 Buyer; provided, however, that the Buyer shall control such defense, settlement, adjustment or compromise. The expense of any such defense, settlement, adjustment or compromise, including the Buyer's counsel and any counsel chosen by the Securityholder Representative shall be borne by the Securityholders. The Buyer shall have the right to settle any such Third Party Claim; provided, however, that the Buyer may not effect a settlement, adjustment or compromise of or a confession of judgment to any such Third Party Claim without the written consent of the Securityholder Representative, which consent shall not be unreasonably withheld, delayed or conditioned.

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

11.3 Duration. All representations and warranties set forth in this Agreement and any Schedules or certificates delivered pursuant hereto or thereto, and all covenants, agreements and undertakings of the parties contained in or made pursuant to this Agreement and any Schedules or certificates delivered pursuant hereto or thereto, and the rights of the parties to seek indemnification with respect thereto (all of the foregoing collectively, the "Indemnifiable Matters"), shall survive the Closing but, except in respect of any claims for indemnification as to which a Claim Notice shall have been duly given and also as provided in the immediately following sentence, [***]. Notwithstanding the foregoing, each Securityholder's obligations for claims for breaches of the representations and warranties relating to or arising from fraud shall be several and independent of, and shall not be limited by, the Agreement and shall survive the Closing Date indefinitely and shall not be limited in amount.

11.4 Liability; Offset.

(a) If the Closing occurs, the Buyer agree that the right to indemnification pursuant to this Article XI shall constitute the Buyer's sole and exclusive remedy and recourse against the Sellers for Losses attributable to any Indemnifiable Matters. Except with respect to the Excluded Obligations, the maximum liability of the Securityholders collectively shall be limited to the Escrow Deposit and the maximum liability of any Securityholder shall be limited to such Securityholder's Pro Rata Portion of the Losses up to such Securityholder's Pro Rata Portion of the Escrow Deposit and the maximum liability of the Securityholders collectively for the Excluded Obligations shall be limited to the Purchase Price and the maximum liability of any Securityholder for the Excluded Obligations shall be limited to such Securityholder's Pro Rata Portion of the Losses up to such Securityholder's Pro Rata Portion of the Purchase Price, [***].

(b) [***].

(c) If the Closing occurs, the Securityholders agree that the right to indemnification pursuant to this Article XI shall constitute the Securityholders sole and exclusive remedy and recourse against the Buyer for Losses attributable to any Indemnifiable Matters. The maximum liability of the Buyer hereunder shall be limited to the Purchase Price.

(d) The Buyer shall have the right to offset against the Installment Consideration and the Equity Consideration any amounts due to it pursuant to this Article XI; provided, however, Buyer's right of set-off is available according to the procedures and in such amount as Buyer is entitled to indemnification under the provisions of this Article XI.

11.5 No Contribution. The Securityholders hereby waive, acknowledge and agree that the Securityholders 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 Buyer or the Company in connection with any indemnification payments which the Securityholders are required to make under this Article XI. Nothing contained in this Article XI shall limit a Securityholder's right of contribution or right of indemnity from another Securityholder.

11.6 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.

11.7 Waiver of Certain Damages. No party shall be liable to any other party for any special, punitive, exemplary, or consequential damages as a result of a breach of this Agreement, except to the extent any such damages constitute Losses to such party pursuant to an indemnified Third-Party Claim.

11.8 General Release.

(a) Each Seller from and after the Closing each hereby releases forever and discharge the Buyer, the Company, their respective Affiliates, and each of their respective officers, managers, directors, shareholders, members and employees (collectively, the “Releasees”), of and from any and all actions, claims, damages and Liabilities of any kind or nature whatsoever that relate to or arise out of any dealings, relationships or transactions by and between the Sellers, on the one hand, and any Releasee, on the other hand, in law or equity, which against any Releasee such Seller has ever had, now has or which he, she or it hereafter can, shall or may have, whether or not now known, from the beginning of the world to the Closing Date (the “Causes of Action”). Each Seller understands and agrees that he, she or it is expressly waiving all claims, even those it may not know or suspect to exist, which if known may have materially affected the decision to provide this release, and such Seller expressly waives any rights under applicable Law that provide to the contrary. Furthermore, each Seller further agrees not to institute any litigation, lawsuit, claim or action against any Releasee with respect to the released Causes of Action.

(b) The release set forth in this Section 11.8, shall not apply to any rights of a Seller pursuant to this Agreement or any agreement entered into by such Seller in connection with the transactions contemplated by this Agreement.

ARTICLE XII

REGISTRATION RIGHTS

12.1 Registrable Shares. For purposes of this Agreement, “Registrable Shares” shall mean the Buyer Common Stock, issued as part of the Equity Consideration and the Earnout Consideration.

12.2 Registration. Buyer shall use commercially reasonable best efforts to prepare and file with the SEC a registration statement on Form S-3 under the Securities Act with respect to the resale of the Registrable Shares (the “Registration Statement”) [***] (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 Sellers may reasonably request and that would permit or facilitate the sale of Registrable Shares (provided however that Buyer shall not be required in connection therewith to qualify to do business or to file a general consent to service of process in any such state or jurisdiction).

12.3 Effectiveness; Suspension Right.

(a) Buyer will use commercially reasonable best efforts to cause any Registration Statement to become and remain effective for six (6) months from the issuance of any Registrable Shares under the Securities Act and from time to time will amend or supplement each 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. Buyer will notify the Sellers promptly upon any Registration Statement being declared effective or when a supplement to any prospectus forming a part of any Registration Statement has been filed.

(b) Following such date as a Registration Statement is first declared effective, the Sellers 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.

(c) Notwithstanding any other provision of this Article XII, Buyer shall have the right at any time to require that the Sellers 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 Buyer, upon written advice of counsel, there is in existence material undisclosed information or events with respect to Buyer, the disclosure of which would be materially detrimental to the Buyer, because such disclosure would (i) materially interfere with a significant acquisition, corporate reorganization, or other similar transaction involving the Buyer; or (ii) require premature disclosure of material information that the Buyer has a bona fide business purpose for preserving as confidential (the “Suspension Right”). In the event Buyer exercises the Suspension Right, such suspension will begin on the date a notice of such suspension is provided to the Sellers and shall 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 Buyer, as determined in good faith by Buyer after consultation with counsel. Buyer will promptly give the Sellers written notice of any such suspension and will use its commercially reasonable best efforts to minimize the length of the suspension.

12.4 Expenses. The costs and expenses to be borne by Buyer for purposes of this Article XII shall include, without limitation, printing expenses, legal fees and disbursements of counsel for Buyer, “blue sky” expenses, accounting fees, governmental filing fees and exchange listing fees, but shall not include underwriting commissions or similar charges, legal fees and disbursements of counsel (if any) for the Sellers.

12.5 Indemnification.

(a) To the extent permitted by Law, Buyer will indemnify and hold harmless the Sellers, any underwriter (as defined in the Securities Act) for the Sellers, and their officers, directors, Securityholders or partners and each Person, if any, who controls or is alleged to control the Sellers 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 Buyer 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 Buyer will pay to the Sellers, 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 Buyer (which consent may not be unreasonably withheld); nor shall Buyer be liable to the Sellers 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 the Sellers expressly for use in the Registration Statement, or (ii) a Violation that would not have occurred if the Sellers had delivered to the purchaser the version of the prospectus most recently provided by Buyer to the Sellers as of a date prior to such sale.

(b) To the extent permitted by Law, the Sellers will indemnify and hold harmless Buyer, each of its directors, each of its officers who has signed the Registration Statement, each Person, if any, who controls Buyer 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 the Sellers to deliver the most current prospectus provided by Buyer 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 the Sellers expressly for use in the Registration Statement or such Violation is caused by the Sellers' failure to deliver to the purchaser of the Sellers' Registrable Shares a prospectus (or amendment or supplement thereto) that had been provided to the Sellers by Buyer prior to the date of the sale; and the Sellers 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 the Sellers, which consent shall not be unreasonably withheld. The aggregate indemnification and contribution Liability of the Sellers under this Section 12.5(b) and 12.5(d) below shall not exceed the net proceeds received by the Sellers 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 hand 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 or 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 Seller shall propose to sell Registrable Shares pursuant to the Registration Statement, he, she or it shall notify Buyer of the 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 Buyer shall conclusively be deemed to reestablish and reconfirm an agreement by such Seller 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 Seller 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, Buyer may refuse to permit such Seller to resell any Registrable Shares pursuant to the Registration Statement; provided, however, that in order to exercise this right, Buyer must deliver a certificate in writing to such Seller 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 Buyer, could constitute a violation of the federal securities Laws.

(b) For any offer or sale of any of the Registrable Shares by a Seller in a transaction that is not exempt under the Securities Act, such Seller shall deliver to the purchaser the version of the prospectus most recently provided by Buyer to such Seller as of a date prior to such sale.

12.7 Removal of Restrictive Legends. At any time after the date that is six (6) months following the issuance of any Registrable Shares, the Buyer shall, within five (5) business days upon the request of a Seller, issue new stock certificates representing such shares without restrictive legends if such Seller is not then an affiliate of the Buyer within the meaning of Rule 144 promulgated under the Securities Act.

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 in person or sent by facsimile or electronic mail or sent by reputable overnight delivery service and properly addressed as follows, provided that notices to the Securityholder Representative shall be delivered solely by facsimile or electronic mail:

- (a) if to the Company (prior to Closing) or the Securityholders to:

Sonar Technologies, Inc.

PO Box 3545

Thousand Oaks, CA 91359

Attention: Matthew Berman

Email: mberman@sendsonar.com

with copies to:

Goodwin Procter, LLP

Three Embarcadero Center, 28th Floor

San Francisco, CA 94111

Attention: Joshua Cook, Darin See

Email: dsee@goodwinlaw.com

- (b) if to the Securityholder Representative, to:

Fortis Advisors LLC

Attention: Notices Department (Project Dodger)

Facsimile No.: (858) 408-1843

Email: notices@fortisrep.com

(c) if to the Buyer, to:

Marchex, Inc.
520 Pike Street, Suite 2000
Seattle, WA 98101
Attention: Michelle Paterniti, General Counsel
Email: mpaterniti@marchex.com

Any party may from time to time change its address for the purpose of notices to that party by a similar notice specifying a new address, but no such change shall be deemed to have been given until it is actually received by the party sought to be charged with its contents. All notices and other communications required or permitted under this Agreement which are addressed as provided in this section, if delivered personally or courier or sent by electronic mail, shall be effective upon delivery; if sent by facsimile, shall be delivered upon receipt of proof of transmission.

13.4 **Binding Effect; Assignment.** This Agreement, and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Neither this Agreement nor any rights, duties or obligations hereunder shall be assigned by any party hereto without the prior written consent of the other parties hereto, except by the Buyer to any successor to its business or to any Affiliate as long as the Buyer remains ultimately liable for all of the Buyer's obligations hereunder.

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

13.6 **Public Announcements.** Promptly after the date of execution hereof and the Closing Date, the Buyer may issue a press release in such form as reasonably acceptable to the Securityholder Representative and none of the parties hereto shall, except as agreed by the Buyer and the Securityholder Representative, or except as may be required by Law or applicable regulatory authority (including without limitation the rules applicable to Nasdaq listed companies), issue any other reports, releases, announcements or other statements to the public relating to the transactions contemplated hereby; provided, that the Sellers may rerelease press releases otherwise issued by the Buyer with respect to the Transaction.

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 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).

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 applicable 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 Disclosure Schedules. Nothing in any Schedule or any supplement to or amendment of any such Schedule shall be deemed adequate to disclose an exception to a representation or warranty made herein unless such Schedule identifies the exception with reasonable particularity. The statements in any such Schedule or supplement or amendment relate only to the provisions in the Section and/or subsections of this Agreement to which they expressly relate and not to any other provision of this Agreement.

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

13.15 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.

13.16 Electronic Signatures. This Agreement, and any agreement, assignment, instrument, statement, certificate and other document given pursuant hereto, may be executed by means of electronic or other facsimile signatures, which and shall be binding on the parties as though they were manual signatures.

ARTICLE XIV

DEFINITIONS

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

“**Acquisition Transaction**” has the meaning set forth in Section 5.2 of the Agreement.

“**Advisory Group**” has the meaning set forth in Section 6.8(e) of the Agreement.

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

“**Audit**” has the meaning set forth in Section 6.7 of the Agreement.

“**Balance Sheet**” has the meaning set forth in Section 2.6(a) of the Agreement.

“**Buyer Common Stock**” has the meaning set forth in Section 1.2(b) of the Agreement.

“**Buyer Disclosure Schedules**” has the meaning set forth in the preamble of Article IV to the Agreement.

“**Buyer Material Adverse Effect**” means any change, event or effect that is, or that is reasonably likely to be, materially adverse to the business, operation, assets, Liabilities, financial condition or results of operations of the Buyer and its subsidiaries, taken as a whole, but shall in no event be attributable to any change in Buyer’s stock price or any shortfall in Buyer’s financial performance from any securities analyst forecast or estimate.

“**Buyer Prepared Return**” means any Tax Return required to be filed by the Company after the Closing Date with respect to a Pre-Closing Tax Period, including all Tax Returns for Straddle Periods.

“**Causes of Action**” has the meaning set forth in Section 11.8 of the Agreement.

“**Berman Executive Employment Agreement**” means the employment agreement between the Company and Matthew Berman dated as of the Closing Date.

“**Claim**” has the meaning set forth in Section 5.1 of the Agreement.

“**Claim Notice**” has the meaning set forth in Section 11.2 of the Agreement.

“**Closing**” has the meaning set forth in Section 1.6 of the Agreement.

“**Closing Date**” has the meaning set forth in Section 1.6 of the Agreement.

“**Closing Indebtedness**” has the meaning set forth in Section 1.4(b) of the Agreement.

“**Closing Net Working Capital**” has the meaning set forth in Section 1.4(b) of the Agreement.

“**Code**” means the Internal Revenue Code of 1986, as amended.

“**Communications Laws**” has the meaning set forth in Section 2.12(n) of the Agreement.

“**Company**” has the meaning set forth in the preamble to the Agreement.

“**Company’s Business**” means a technology-enabled service that helps clients deliver better, more personal customer experiences via a singular dashboard that utilizes text-related messaging and application program (app) messaging tools.

“**Company Capital Stock**” has the meaning set forth in Section 2.4 of the Agreement.

“**Company Equity Securities**” has the meaning set forth in the preamble to the Agreement.

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

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

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

“**Company Material Adverse Effect**” means any change, event or effect that is, or that is reasonably likely to be, materially adverse to the business, operations, assets, Liabilities, prospects, financial condition or results of operations of the Company.

“**Company Option**” has the meaning set forth in Section 2.4 of the Agreement.

“**Company Option Plan**” has the meaning set forth in Section 2.4 of this Agreement.

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

“**Company Warrant**” has the meaning set forth in Section 2.4 of the Agreement.

“**Confidentiality Agreement**” means the confidentiality agreement entered into by the Buyer and the Company, dated as of April 24, 2019.

“**Data**” has the meaning set forth in Section 2.6(b) of the Agreement.

“**DGCL**” means the Delaware General Corporation Law.

“**Earnout Period**” has the meaning set forth in Exhibit B of the Agreement.

“**Employee**” or “**Employees**” means any current employee, officer, or director of the Company.

“**Equity Consideration**” has the meaning set forth in Section 1.2(c) of the Agreement.

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

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

“**Escrow Agent**” has the meaning set forth in Section 1.5(a) of the Agreement.

“**Escrow Agreement**” has the meaning set forth in Section 1.5(a) of the Agreement.

“**Escrow Deposit**” has the meaning set forth in Section 1.5(a) of the Agreement.

“**Escrow Release Date**” has the meaning set forth in Section 1.5(a) of the Agreement.

“**Event**” has the meaning set forth in Section 1.2(b) of the Agreement.

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

“**Excluded Obligations**” has the meaning set forth in Section 10.3 of the Agreement.

“**Executive Employment Agreements**” means the employment agreements between the Company and [***] and the Company and [***] dated as of the Closing Date.

“**Expense Fund Amount**” has the meaning set forth in Section 6.8(f) of the Agreement.

“**FCC**” has the meaning set forth in Section 2.12(n) of the Agreement.

“**Final Net Working Capital and Indebtedness Schedule**” has the meaning set forth in Section 1.4(b) of the Agreement.

“**Final Accounting Firm**” has the meaning set forth in Section 1.4(b) of the Agreement.

“**Financial Statements**” has the meaning set forth in Section 2.6(a) of the Agreement.

“**FTC**” has the meaning set forth in Section 2.12(n) of the Agreement.

“**GAAP**” has the meaning set forth in Section 2.6(a) of the Agreement.

“**Governmental Entity**” or “**Governmental Entities**” means any federal, state, local or foreign, governmental or quasi-governmental entity or municipality or any subdivision thereof or agency, authority, department, commission, board, bureau, court, tribunal or instrumentality, or any applicable self-regulatory organization.

“**HIPPA**” has the meaning set forth in Section 2.12(m) of the Agreement.

“**Indebtedness**” means (i) indebtedness for borrowed money, or guarantees of any such indebtedness, for which the Company is obligated, including the principal amount, plus accrued but unpaid interest thereon, of debt securities of the Company; (ii) any Liabilities relating to any capital lease obligation of the Company, and shall include any prepayment penalties or fees or other amounts payable in connection with any such indebtedness or Liabilities and (iii) any negative cash balances of the Company.

“Indemnifiable Matters” has the meaning set forth in Section 11.3 of the Agreement.

“Indemnified Party” has the meaning set forth in Section 12.5(c) of the Agreement.

“Indemnified Taxes” means, except to the extent included in the determination of Final Net Working Capital, and except to the extent a Non-Indemnified Tax, (i) all Taxes of the Company for all Pre-Closing Tax Periods (including the portion of the Straddle Period ending on and including the Closing Date, as determined under Section 6.6(a) of this Agreement); (ii) all Taxes of any member of an affiliated, consolidated, combined or unitary group of which the Company (or any predecessor) is or was a member on or prior to the Closing Date by reason of a Liability under Treasury Regulation Section 1.1502-6 or any comparable provisions of foreign, state or local Law; (iii) any and all Taxes of any Person imposed on the Company (other than the Company) arising under the principles of transferee or successor Liability or by contract, in each case, relating to an event or transaction occurring before the Closing Date; (v) [***] Transfer Taxes, if any [***]; and (vi) the employer portion of any employment Taxes attributable to payments contemplated by this Agreement, which include, without limitation, the per-share consideration delivered to the holders of the Vested Options in consideration of their Vested Options and the Transaction Bonuses (but, notwithstanding the foregoing, excluding any Taxes attributable to any payments related to the Executive Employment Agreements or other employer payroll Taxes for services provided to Buyer or its Affiliates after the Closing).

“Indemnifying Party” has the meaning set forth in Section 12.5(c) of the Agreement.

“Intellectual Property” means any or all of the following and all rights in, arising out of, or associated therewith: (i) all United States, international and foreign patents and applications therefor and all reissues, divisions, renewals, extensions, provisionals, continuations and continuations-in-part thereof; (ii) all inventions (whether patentable or not), invention disclosures, improvements, trade secrets, proprietary information, know how, technology, technical data and customer lists, computer programs and other computer software, including all versions thereof, and all related documentation, manuals, field and data definitions and relationships, data definition specifications, data models, program and system logic, systems designs, sequence and organization, 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 (including if under development); (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.

“Investor Agreements” has the meaning set forth in Section 2.4(b) of the Agreement.

“IRS” means the United States Internal Revenue Service.

“Key Employee(s)” means Matthew Berman, [***] and [***].

[***].

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

“Lien” means all mortgages, liens, pledges, security interests, charges, claims, restrictions, encumbrances, options, pledges, deeds of trust, voting agreements or trusts, or any other rights or restrictions of any nature whatsoever.

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

“LOI” means the Letter of Intent executed between the Buyer and the Company dated September 10, 2019 and as amended to date.

“Losses” means any and all losses, damages, deficiencies, Liabilities, obligations, actions, suits, proceedings, demands, assessments, judgments, recoveries, fees, diminution in value, costs and expenses (including, without limitation, all out-of-pocket expenses, reasonable investigation expenses and reasonable fees and disbursements of accountants and counsel) of any nature whatsoever and whether or not arising from any Third Party Claim.

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

“Near Relatives” has the meaning set forth in [Section 2.11\(c\)](#) in the Agreement.

“Non-Indemnified Taxes” means any (a) Taxes of the Company or other Losses resulting from any transaction occurring on the Closing Date after the Closing outside the ordinary course of business of the Company, taken at the direction of Buyer (or any of its Affiliates, including the Company after the Closing) and not contemplated by this Agreement or (b) any Taxes or other Losses arising as a result of any election made under Sections 336 or 338 of the Code (or any state, local or foreign law equivalent) in respect of the transactions contemplated by this Agreement.

[***].

“Open Source Materials” means all software or other material that is distributed as “free software”, “open source software” or under a similar licensing or distribution model, including without limitation the GNU General Public License (GPL), GNU Lesser General Public License (LGPL), Mozilla Public License (MPL), BSD Licenses, the Artistic License, the Netscape Public License, the Sun Community Source License (SCSL) the Sun Industry Standards License (SISL) and the Apache License.

“**Partner**” has the meaning set forth in Section 2.18 of the Agreement.

“**Paying Agent**” means PNC Bank, N.A., as designated by the Securityholder Representative.

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

“**Pre-Closing Tax Period**” means any taxable period ending on or before the Closing Date and, with respect to any Straddle Period, the portion of such Straddle Period ending on and including the Closing Date.

“**Preliminary Closing Indebtedness**” has the meaning set forth in Section 1.4(a) of the Agreement.

“**Preliminary Net Working Capital**” has the meaning set forth in Section 1.4(a) of the Agreement.

“**Preliminary Net Working Capital and Indebtedness Schedule**” has the meaning set forth in Section 1.4(a) of the Agreement.

“**Pro Rata Portion**” of a Securityholder shall be equal to each Securityholder’s percentage ownership of the Company’s Equity Securities as reflected in the Securityholder Allocation Spreadsheet.

“**Purchase Price**” has the meaning set forth in Section 1.2(d) of the Agreement.

“**Registrable Shares**” has the meaning set forth in Section 12.1 of the Agreement.

“**Registration Statement**” has the meaning set forth in Section 12.2 of the Agreement.

“**Releasees**” has the meaning set forth in Section 11.8 of the Agreement

“**Related Person**” has the meaning set forth in Section 2.11(c) of the Agreement.

“**Schedules**” means any schedules attached to or provided for under the Agreement.

“**SEC**” has the meaning set forth in Section 2.6(a) of the Agreement.

“**SEC Filings**” has the meaning set forth in Section 4.4 of the Agreement.

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

“**Seller**” has the meaning set forth in the preamble to the Agreement.

“**Shares**” has the meaning set forth in the preamble to the Agreement.

“**Securityholders**” has the meaning set forth in the preamble to the Agreement.

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

“**Securityholder Allocation Spreadsheet**” means a schedule in the form attached hereto as Exhibit A, and delivered separately to Buyer prior to the Closing which sets forth the payments to be made to each Seller at the Closing.

“**Securityholder Representative Engagement Agreement**” has the meaning set forth in Section 6.8(e) of the Agreement.

“**Straddle Period**” means any taxable period that begins on or before the Closing Date and ends after the Closing Date.

“**Suspension Right**” has the meaning set forth in Section 12.3(c) of the Agreement.

“**Systems**” has the meaning set forth in Section 2.11(e) of the Agreement.

“**Tax**” or “**Taxes**” means , whether disputed or not, (i) 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, escheat or unclaimed 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.

“**Taxing Authority**” means any governmental agency, board, bureau, body, department, or authority of any United States federal, state or local jurisdiction or any foreign jurisdiction having jurisdiction with respect to any Tax.

“**Tax Contest**” means any examination, audit or other proceeding with respect to the Taxes of the Company for which the Sellers are reasonably likely to incur an indemnification obligation under this Agreement.

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

“**Third Party Claim**” has the meaning set forth in Section 11.2(b) of the Agreement.

“**Threshold**” has the meaning set forth in Section 11.4(b) of the Agreement.

“**Tier A Financial Goals**” has the meaning set forth in Exhibit B of the Agreement.

“**Tier B Financial Goals**” has the meaning set forth in Exhibit B of the Agreement.

“**Total Exercise Price**” has the meaning set forth in Section 1.2(a) to the Agreement.

[***].

“**Transfer Taxes**” means all transfer, documentary, sales, use, stamp and registration Taxes, and all conveyance fees, recording charges and other fees and charges (including any penalties and interest) incurred in connection with the consummation of the transactions contemplated by the Agreement.

“**Upfront Cash Consideration**” has the meaning set forth in Section 1.2(a) of the Agreement.

“**USAC**” has the meaning set forth in Section 2.12(n) of the Agreement.

“**Violation**” has the meaning set forth in Section 12.5(a) of the Agreement.

[***].

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COUNTERPART SIGNATURE PAGE
TO EQUITY 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.

BUYER:

MARCHEX, INC.

By: /s/ Michael Arends

Name: Michael Arends

Title: Co-CEO and Chief Financial Officer

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COUNTERPART SIGNATURE PAGE
TO EQUITY 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.

COMPANY:

SONAR TECHNOLOGIES, INC.

By: /s/ Matthew Berman

Name: Matthew Berman

Title: Chief Executive Officer

SECURITYHOLDER REPRESENTATIVE:

FORTIS ADVISORS LLC

By: /s/ Ryan Simkin

Name: Ryan Simkin

Title: Managing Director

SELLERS:

/s/ Matthew Berman

Name: Matthew Berman

/s/ Michael Makarov

Name: Michael Makarov

/s/ Sheel Mohnot

Name: Sheel Mohnot

/s/ Lynda Smith

Name: Lynda Smith

/s/ Robert Neivert

Name: Robert Neivert

/s/ Finbarr Taylor

Name: Finbarr Taylor

/s/ Tim Fong

Name: Tim Fong

/s/ Rebecca Yang

Name: Rebecca Yang

/s/ Alex Wu

Name: Alex Wu

/s/ Nic Baughman

Name: Nic Baughman

/s/ Paul Fagan

Name: Paul Fagan

/s/ Mitch Morando

Name: Mitch Morando

/s/ Mathew Heldman

Name: Mathew Heldman

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EXHIBIT A

[***]

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EXHIBIT B

EARNOUT CONSIDERATION

[***]

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EXHIBIT C
ESCROW AGREEMENT

[***]

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EXHIBIT D

FORMS OF BERMAN EXECUTIVE EMPLOYMENT AGREEMENT AND OTHER EXECUTIVE EMPLOYMENT AGREEMENTS

[***]

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EXHIBIT E

PRELIMINARY NET WORKING CAPITAL AND INDEBTEDNESS SCHEDULE

[***]

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EXHIBIT F

NON-COMPETITION PERIODS/MATTERS

[***]

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**AMENDMENT NO. 7 TO
MASTER SERVICES AND LICENSE AGREEMENT**

This Amendment No. 7 (“**Amendment No. 7**”), effective as of December 31, 2019 (the “**Amendment 7 Effective Date**”), is being entered into by and between Marchex Sales LLC, a Delaware limited liability company formerly known as Marchex Sales, Inc., which is a wholly-owned subsidiary of Marchex, Inc. (“**Marchex**”), and Thryv, Inc. (f/k/a/ Dex Media, Inc), successor in interest to YellowPages.com LLC formerly doing business as AT&T Interactive or ATTi, (“**Thryv**”), to amend the Master Services and License Agreement entered between Thryv and Marchex effective as of October 1, 2007 (as amended by all prior amendments, Change Rule Sheets, and Project Addenda, as amended, thereto, and including all attachments, collectively the “**Agreement**”). Thryv and Marchex may hereinafter be referred to individually as “**Party**” and collectively as “**Parties**.” Capitalized terms used herein but not defined shall have the respective meanings ascribed to them in the Agreement.

WHEREAS, Marchex provides certain Advertising Services to Thryv pursuant to the terms of the Agreement and certain Project Addenda thereunder; and

WHEREAS, the Parties desire to amend certain provisions of the Agreement;

NOW, THEREFORE, in consideration of the mutual acknowledgements and agreements hereinafter contained, including to be legally bound, the Parties agree as follows:

1. **Section 12.1 – Renewal Term.** In accordance with the provisions of Section 12.1 (Term) of the Agreement, the parties hereby agree to renew the Agreement for an additional one-year term, beginning January 1, 2020. Thus, the Term of this Agreement shall continue in full force and effect through December 31, 2020, unless earlier terminated as provided in the Agreement.
2. **Party References.** Any reference to DexYP in the Agreement shall be replaced with or deemed to refer to Thryv.
3. **Other Terms of the Agreement.** All other terms and conditions of the Agreement shall remain unchanged and in full force and effect.
5. **Authority.** Each person signing this Amendment hereby represents and warrants that he or she has full authority to execute this Amendment for the Party on whose behalf he or she is signing.
6. **Counterparts.** This Amendment may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument. A signature received electronically via facsimile or email shall be as legally binding for all purposes as an original signature.

IN WITNESS WHEREOF, the Parties have executed this Amendment No. 7 effective as of the Amendment 7 Effective Date.

THRYV, INC.

MARCHEX SALES LLC

BY: /s/ John Gregory
Name: John Gregory
Title: V.P.

BY: /s/ Debora Autry
Name: Debora Autry
Title: Vice President

**AMENDMENT NO. 5 TO
PAY-FOR-CALL DISTRIBUTION AGREEMENT**

This Amendment No. 5 ("**Amendment No. 5**"), effective as of December 31, 2019 (the "**Amendment 5 Effective Date**"), is being entered into by and between Marchex Sales LLC, a Delaware limited liability company formerly known as Marchex Sales, Inc., which is a wholly-owned subsidiary of Marchex, Inc. ("**Marchex**"), and Thryv, Inc. (f/k/a Dex Media, Inc), successor in interest to YellowPages.com LLC formerly doing business as AT&T Interactive or ATTi ("**Thryv**"), to amend the Pay-For-Call Distribution Agreement entered between Thryv and Marchex effective as of January 1, 2011, as amended by Amendment 1 effective December 31, 2012, Amendment 2 effective June 25, 2015, Amendment 3 effective December 15, 2016, and Amendment 4 effective December 31, 2018 (together, the "**Agreement**"). Thryv and Marchex may hereinafter be referred to individually as "**Party**" and collectively as "**Parties**." Capitalized terms used herein but not defined shall have the respective meanings ascribed to them in the Agreement.

WHEREAS, Marchex provides certain pay-for-call advertising services to Thryv pursuant to the terms of the Agreement; and

WHEREAS, the Parties desire to extend the term and amend certain provisions of the Agreement;

NOW, THEREFORE, in consideration of the mutual acknowledgements and agreements hereinafter contained, including to be legally bound, the Parties agree as follows:

1. **Term - Section 7.1.** In accordance with the language in **Section 7.1** of the Agreement, the Parties hereby agree to renew the Agreement through and including December 31, 2020. Thus, unless otherwise terminated in accordance with the terms of the Agreement, the Agreement shall continue in full force and effect through and including December 31, 2020.
2. **Party References.** Any reference to DexYP in the Agreement shall be replaced with or deemed to refer to Thryv.
3. **Other Terms of Agreement Unchanged.** Except as set forth herein, all other terms and conditions of the Agreement shall remain unchanged and in full force and effect.
4. **Authority.** Each person signing this Amendment hereby represents and warrants that he or she has full authority to execute this Amendment for the Party on whose behalf he or she is signing.
5. **Counterparts.** This Amendment may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument. A signature received electronically via facsimile or email shall be as legally binding for all purposes as an original signature.

IN WITNESS WHEREOF, the Parties have executed this Amendment No. 5 effective as of the Amendment 5 Effective Date.

THRYV, INC.

MARCHEX SALES LLC

BY: /s/ John Gregory
Name: John Gregory
Title: V.P.

BY: /s/ Debora Autry
Name: Debora Autry
Title: Vice President

List of Subsidiaries of the Registrant

	Name	Jurisdiction
1.	Marchex Paymaster, LLC	Delaware
2.	goClick.com, Inc.	Delaware
3.	Marchex, LLC	Delaware
4.	Marchex Sales, LLC	Delaware
5.	Marchex CAH, Inc.	Delaware
6.	Telmetrics Corporation (formerly, Telmetrics Inc.)	Nova Scotia
7.	Marchex International, Ltd.	Ireland
8.	Marchex Voice Services, Inc.	Pennsylvania
9.	Marchex Europe Limited	United Kingdom
10.	Jingle Networks, Inc.	Delaware
11.	MX Services Europe Ltd.	United Kingdom
12.	Callcap, LLC (formerly, SITA Laboratories, Inc.)	Delaware
13.	DCCI Support Service, Inc.	Delaware
14.	Sonar Technologies, Inc.	Delaware

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-230538, 333- 223898, 333-216935, 333-210367, 333-202868, 333-194509, 333-194508, 333-187469, 333-116867, 333-123753, 333-132957, 333-141797, 333-149790, 333-158394, 333-165536, 333-172967, 333-180212, and 333-181327) and Form S-3 (333-235471) of Marchex, Inc. of our reports dated March 13, 2020, relating to the consolidated financial statements of Marchex, Inc. (which report expresses an unqualified opinion and includes an explanatory paragraph relating to a change in the method of accounting for leases) and the effectiveness of internal control over financial reporting of Marchex, Inc. as of December 31, 2019, appearing in this Annual Report on Form 10-K for the year ended December 31, 2019.

/s/ Moss Adams LLP

Seattle, Washington
March 13, 2020

**CERTIFICATION PURSUANT TO RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

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 13, 2020

/s/ Michael A. Arends

Michael A. Arends
Co-CEO and Chief Financial Officer (Principal Executive
Officer for SEC reporting purposes and Principal
Financial Officer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Marchex, Inc. (the "Company") for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Michael A. Arends, as Principal Executive Officer and as Principal Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 13, 2020

By: /s/ MICHAEL A. ARENDS
Name: **Michael A. Arends**
Title: **Co-CEO and Chief Financial Officer**
(Principal Executive Officer for SEC reporting
purposes and Principal Financial Officer)