

MARCHEX INC
Form 10-K
March 18, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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

35-2194038
(I.R.S Employer

Edgar Filing: MARCHEX INC - Form 10-K

Incorporation or Organization) Identification No.)

520 Pike Street, Suite 2000

Seattle, WA

98101

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (206) 331-3300

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Class B Common Stock,	The NASDAQ Stock Market LLC

\$0.01 par value per share (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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	Accelerated filer
Non-accelerated filer	Smaller reporting company

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 common stock on The NASDAQ Stock Market on June 30, 2018 was \$103,876,348.

The number of shares of Registrant's Class A common stock outstanding as of March 14, 2019 was 5,056,136. The number of shares of Registrant's Class B common stock outstanding as of March 14, 2019 was 37,041,338.

Portions of the Registrant's Definitive Proxy Statement relating to the 2019 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein.

TABLE OF CONTENTS

	Page
Part I	
ITEM 1. <u>BUSINESS</u>	1
ITEM 1A. <u>RISK FACTORS</u>	15
ITEM 1B. <u>UNRESOLVED STAFF COMMENTS</u>	37
ITEM 2. <u>PROPERTIES</u>	37
ITEM 3. <u>LEGAL PROCEEDINGS</u>	37
ITEM 4. <u>MINE SAFETY DISCLOSURES</u>	37
Part II	
ITEM 5. <u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	38
ITEM 6. <u>SELECTED FINANCIAL DATA</u>	39
ITEM 7. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	40
ITEM 7A. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	60
ITEM 8. <u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	61
ITEM 9. <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	91
ITEM 9A. <u>CONTROLS AND PROCEDURES</u>	91
ITEM 9B. <u>OTHER INFORMATION</u>	92
Part III	
ITEM 10. <u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	93
ITEM 11. <u>EXECUTIVE COMPENSATION</u>	93
ITEM 12.	93

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND
RELATED STOCKHOLDER MATTERS

ITEM 13. <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	93
ITEM 14. <u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	93
Part IV	
ITEM 15. <u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>	94

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 call analytics company that helps businesses connect, drive, measure and convert callers into customers. 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 over the phone. We believe that understanding this behavior and connecting key data points of this online-to-offline consumer journey is a progressive step in marketing analytics.

We believe we have a set of tools for enterprises that depend on phone calls, texts and other communication channels to convert prospects into customers 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.

1

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, DoubleClick 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.** Launched in 2017, 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 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 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.** With the acquisition of Callcap and Telmetrics, 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 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 DoubleClick 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 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 December 2017 eMarketer report, US advertisers are expected to spend nearly \$48 billion in 2018 and are projected to spend \$67 billion in 2021 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 of social media advertising has on inbound calls from platforms like Facebook or Instagram so marketers can see which posts are working. According to a December 2016 Zenith Media report, global social media is forecasted to grow 72% between 2016 and 2019, rising from \$29 billion to \$50 billion.

• **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 primary contracts with Yellowpages.com LLC ("YP"), we generate revenues from our local leads platform. This local leads platform agreement, which expires December 31, 2019, provides YP flexibility to migrate active accounts to itself or a third-party provider prior to the end of an advertiser contract and provides YP with certain termination rights upon four months notice. In 2017, Dex Media, Inc. ("Dex") acquired YP Holdings LLC ("YP Holdings"), which is the parent company of YP. We also have separate pay-for-call services and distribution partner agreements with YP and separate reseller partner agreements with Dex for pay-for-call and call analytics services. YP including Dex (collectively "DexYP") is our largest reseller partner and was responsible for 21% and 23% of our total revenues in the years ended December 31, 2017 and 2018 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. 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.

4

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. According to Interactive Advertising Bureau's April 2017 advertising revenue report, performance-based formats accounted for 64% of an estimated \$73 billion online advertising market in 2016 compared to 7% of the \$5 billion market in 1999.

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 advertisers and local small businesses through tying these offline phone conversations to their online marketing initiatives. Our call analytics technology and products are specifically designed to help address the challenges associated with closing the loop between digital marketing and phone calls. In addition, 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. 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

5

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 product capabilities by growing our conversation analytics 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 Acceleration Solutions, a host of new solutions powered by AI speech technology that can help organizations identify valuable customer conversations across communication channels and train salespeople and contact center representatives to create a better consumer experience, maintain strong relationships and win new business; (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 Advertisers Using Our Products and Services. We plan to continue to provide a consistently high level of service and support to 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;

6

- 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 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 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 Machex’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.

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. 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, DoubleClick, and Salesforce and other third-party marketers; and in 2017, we signed an integration agreement with Facebook. 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	AT&T	T-Mobile	TracFone	Verizon
Selected Search Engines	Google	Bing	Yahoo!	

Selected Vertical and Local Distribution Avantar GroundTruthGoogle Mobile

MapquestMSN

Whitepages, Inc.

7

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, DoubleClick, Salesforce, and other third-party marketers and in 2017, 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

8

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 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. 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 DexYP. 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, 2018, in the United States, we have been issued 41 patents, which are estimated to expire between 2022 and 2035, and have 9 patent applications pending for examination. As of such date, in Canada we also

10

have 1 issued patent which expires in 2026 and 1 patent application pending for examination. In addition, as of December 31, 2018, we have 16 trademarks registered in the United States, 3 trademarks pending registration in the United States, 18 trademarks registered in foreign jurisdictions and 1 trademark pending registration in Canada.

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

The manner in which existing laws and regulations should be applied to the Internet and call-based advertising services in general, and how they relate to our businesses in particular, is unclear. A host of federal and state laws covering user privacy, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, financial market regulation, quality of products and services, computer trespass, telemarketing, spyware, adware, child protection and intellectual property ownership and infringement are potentially applicable to our business practices and the content offered by our mobile and online distribution partners.

In addition, our business is impacted by laws in a constant state of flux, and new legislation is introduced on a regular basis. Any such new legislation could expose us to substantial liability, including significant expenses necessary to comply with such laws and regulations. Courts may apply each of these laws in unintended and unexpected ways. As a company that provides services over the Internet as well as call recording and call tracking services, we may be subject to an action brought under any of these or future laws.

A number of federal, state and foreign laws that could have an impact on our business practices and compliance costs have already been adopted:

•The Digital Millennium Copyright Act (DMCA) provides protection from copyright liability for online service providers that list or link to third party web sites. We currently qualify for the safe harbor under the DMCA; however, if it were determined that we did not meet the safe harbor requirements, we could be exposed to copyright infringement litigation, which could be costly and time-consuming.

•The Children's Online Privacy Protection Act (COPPA) restricts the online collection of personal information about children and the use of that information. The Federal Trade Commission (FTC) has the authority to impose fines and penalties upon web site operators and online service providers that do not comply with the law's requirements. We do

not currently offer any web sites or online services “directed to children,” nor do we knowingly collect personal information from children.

11

- The Protection of Children from Sexual Predators Act requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances.
- The Controlling the Assault of Non-Solicited Pornography and Marketing (CAN-SPAM) Act of 2003 establishes requirements for those who send commercial e-mails, spells out penalties for entities that transmit noncompliant commercial e-mail and/or whose products are advertised in noncompliant commercial e-mail and gives consumers the right to opt-out of receiving commercial e-mails. The majority of the states also have adopted similar statutes governing the transmission of commercial e-mail. The FTC and the states, as applicable, are authorized to enforce the CAN-SPAM Act and the state-specific statutes, respectively. CAN-SPAM gives the Department of Justice the authority to enforce its criminal sanctions. Other federal and state agencies can enforce the law against organizations under their jurisdiction, and companies that provide Internet access may sue violators as well.
- The Electronic Communications Privacy Act prevents private entities from disclosing Internet subscriber records and the contents of electronic communications, subject to certain exceptions.
- The Computer Fraud and Abuse Act and other federal and state laws protect computer users from unauthorized computer access/hacking, and other actions by third parties which may be viewed as a violation of privacy. Courts may apply each of these laws in unintended and unexpected ways. As a company that provides services over the Internet as well as call recording and call tracking services, we may be subject to an action brought under any of these or future laws.
- Among the types of legislation currently being considered at the federal and state levels are consumer laws regulating for the use of certain types of software applications or downloads and the use of “cookies.” These proposed laws are intended to target specific types of software applications often referred to as “spyware,” “invasiveware” or “adware,” and may also cover certain applications currently used in the online advertising industry to serve and distribute advertisements. In addition, the FTC has sought inquiry regarding the implementation of a “do-not-track” requirement. Federal legislation is also expected to be introduced that would regulate “online behavioral advertising” practices. If passed, these laws would impose new obligations for companies that use such software applications or technologies.
- The Communications Act of 1934, as amended by the Telecommunications Act of 1996 (the “Act”), and the regulations promulgated by the Federal Communications Commission under Title II of the Act, may impose federal licensing, reporting and other regulatory obligations on the Company. To the extent we contract with and use the networks of voice over IP service providers, new legislation or FCC regulation in this area could restrict our business, prevent us from offering service or increase our cost of doing business. There are an increasing number of regulations and rulings that specifically address access to commerce and communications services on the Internet, including IP telephony. We are unable to predict the impact, if any that future legislation, legal decisions or regulations concerning voice services offered via the Internet may have on our business, financial condition, and results of operations.
- The U.S. Congress, the FCC, state legislatures or state agencies may target, among other things, access or settlement charges, imposing taxes related to Internet communications, imposing tariffs or other regulations based on encryption concerns, or the characteristics and quality of products and services that we may offer. Any new laws or regulations concerning these or other areas of our business could restrict our growth or increase our cost of doing business.
- The FCC has initiated a proceeding regarding the regulation of broadband services. The increasing growth of the broadband IP telephony market and popularity of broadband IP telephony products and services heighten the risk that the FCC or other legislative bodies will seek to regulate broadband IP telephony and the Internet. In addition, large, established telecommunication companies may devote substantial lobbying efforts to influence the regulation of the broadband IP telephony market, which may be contrary to our interests.
- There is risk that a regulatory agency will require us to conform to rules that are unsuitable for IP communications technologies or rules that cannot be complied with due to the nature and efficiencies of

IP routing, or are unnecessary or unreasonable in light of the manner in which we offer voice-related services such as call recording and pay-for-call services to our customers.

• Federal and state telemarketing laws including the Telephone Consumer Protection Act, the Telemarketing Sales Rule, the Telemarketing Consumer Fraud and Abuse Prevention Act and the rules and regulations promulgated thereunder.

- Laws affecting telephone call recording and data protection, such as consent and personal data statutes. Under the federal Wiretap Act, at least one party taking part in a call must be notified if the call is being recorded. Under this law, and most state laws, there is nothing illegal about one of the parties to a telephone call recording the conversation. However, several states (i.e., California, Connecticut, Florida, Illinois, Maryland, Massachusetts, Michigan, Montana, Nevada, New Hampshire, Pennsylvania and Washington) require that all parties consent when one party wants to record a telephone conversation. The telephone recording laws in other states, like federal law, require only one party to be aware of the recording.

• The Communications Assistance for Law Enforcement Act may require that we undertake material modifications to its platforms and processes to permit wiretapping and other access for law enforcement personnel.

• Under various Orders of the Federal Communications Commission, including its Report and Order and Further Notice of Proposed Rulemaking in Docket Number WC 04-36, dated June 27, 2006, 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 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, 2018, we employed a total of 254 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 \$256.2 million as of December 31, 2018. 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, 2018. 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.

15

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 December 2018, Oath and Microsoft accounted for 11.5% and 24.7%, respectively, of the core search market in the United States and Google accounted for 62.8%. 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 Oath 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 DexYP, 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 primary contracts with YP, we generate revenues from our local leads platform. This local leads platform agreement, which expires December 31, 2019, provides YP flexibility to migrate active accounts to itself or a third-party provider prior to the end of an advertiser contract and provides YP with certain termination rights upon four months notice. We expect YP 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. YP'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 YP and local leads platform advertisers in future periods will comprise lower total revenues compared to previous periods and YP as a percentage of our total revenue may also comprise a smaller percentage of our total revenue. In 2017, Dex Media, Inc ("Dex") acquired YP Holdings LLC ("YP Holdings"), which is the parent company of YP. We also have separate pay-for-call services and distribution partner agreements with YP and separate reseller partner agreements with Dex for pay-for-call and call analytics services. YP including Dex (collectively "DexYP") is our largest reseller partner and was responsible for 23% of our total revenues for the year ended December 31, 2018. It is possible that changes to our relationship and agreements with DexYP may occur and result in a significant reduction in the paid account fees and agency fees that we receive from DexYP. There can be no assurance that our business with DexYP in the future will continue at or near current revenue and contribution levels, that we will be able to renew and extend the contracts, 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 14% and less than 10% of total revenues, respectively, for the year ended December 31, 2018.

16

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 52% and 51% of our revenue from our five largest customers for the years ended December 31, 2017 and 2018, respectively, and the loss of one or more of these customers could adversely impact our results of operations and financial condition.

Our five largest customers accounted for approximately 52% and 51% of our total revenues for the years ended December 31, 2017 and 2018, respectively. DexYP was our largest customer and was responsible for 23% of our total revenues for the year ended December 31, 2018.

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 19% of total revenues for the year ended December 31, 2018. We expect in the near to intermediate term campaign spend levels related to State Farm to be similar to modestly 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 arrangements 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. 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.

18

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

Our insurance policies may not provide coverage for liability arising out of activities of users of our services. In addition, our reliance on some content and information provided to us by our large advertiser reseller partners and agencies may expose us to liability not covered by our insurance policies. Furthermore, we may not be able to obtain or maintain adequate insurance coverage to reduce or limit the liabilities associated with our businesses. Any costs incurred as a result of such liability or asserted liability could have a material adverse effect on our business, operating results and financial condition. Our insurance policies may not provide coverage for liability arising out of activities of users of our services. In addition, our reliance on some content and information provided to us by our large advertiser reseller partners and agencies may expose us to liability not covered by our insurance policies. Furthermore, we may not be able to obtain or maintain adequate insurance coverage to reduce or limit the liabilities associated with our businesses. Any costs incurred as a result of such liability or asserted liability could have a material adverse effect on our business, operating results and financial condition.

If we do not maintain and grow a critical mass of advertisers and distribution partners, the value of our services could be adversely affected.

Our success depends, in large part, on the maintenance and growth of a critical mass of advertisers and distribution partners and a continued interest in our 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. 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 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 and Callcap, 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 employees would only be subject to a twelve-month non-competition and non-solicitation obligation with respect to our customers and employees under our standard confidentiality agreement. 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, and the duties and responsibilities of the chief executive officer are performed by the Office of the CEO consisting of Michael Arends and Russell Horowitz and subject to oversight by our Chairman, Anne Devereux-Mills. We are assessing our current and future senior leadership needs, although we may not be successful in finding or hiring suitable additional senior leadership.

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 or property suffers any damages, losses or claims by third parties that are not covered or adequately covered by insurance, our financial condition may be materially adversely affected. We currently have directors' and officers' liability insurance. If we are unable to maintain sufficient insurance as a public company to cover liability claims made against our officers and directors, we may not be able to retain or recruit qualified officers and directors to manage our company, which could have a material adverse effect on our operations.

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

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

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

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

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 Oath. 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 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, 2018, in the United States, we have been issued 41 patents, which are estimated to expire between 2022 and 2035, and have 9 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, 2018, we have 16 trademarks registered in the United States, 3 trademarks pending registration in the United States, 18 trademarks registered in foreign jurisdictions and 1 trademark pending registration in Canada.

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, and a downturn in advertising and marketing spending by advertisers could adversely affect our operating results.

Our operating results will be subject to fluctuations based on general economic conditions, in particular those conditions that impact advertiser-consumer transactions. Deterioration in economic conditions could cause decreases in or delays in advertising spending and reduce and/or negatively impact our short-term ability to grow our revenues. Further, any decreased collectability of accounts receivable or early termination of agreements due to deterioration in economic conditions could negatively impact our results of operations.

We depend on the growth of 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, 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.

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

33

telephony and the Internet. In addition, large, established telecommunication companies may devote substantial lobbying efforts to influence the regulation of the broadband IP telephony market, which may be contrary to our interests.

There is risk that a regulatory agency will require us to conform to rules that are unsuitable for IP communications technologies or rules that cannot be complied with due to the nature and efficiencies of IP routing, or are unnecessary or unreasonable in light of the manner in which we offer voice-related services such as call recording and pay-for-call services to our customers.

Federal and state telemarketing laws including the Telephone Consumer Protection Act, the Telemarketing Sales Rule, the Telemarketing Consumer Fraud and Abuse Prevention Act and the rules and regulations promulgated thereunder.

Laws affecting telephone call recording and data protection, such as consent and personal data statutes. Under the federal Wiretap Act, at least one party taking part in a call must be notified if the call is being recorded. Under this law, and most state laws, there is nothing illegal about one of the parties to a telephone call recording the conversation. However, several states (i.e., California, Connecticut, Florida, Illinois, Maryland, Massachusetts, Michigan, Montana, Nevada, New Hampshire, Pennsylvania and Washington) require that all parties consent when one party wants to record a telephone conversation. The telephone recording laws in other states, like federal law, require only one party to be aware of the recording. A Wiretap Act violation is a Class D felony; the maximum authorized penalties for a violation of section 2511(1) of the Wiretap Act are imprisonment of not more than five years and a fine under Title 18. Authorized fines are typically not more than \$250,000 for individuals or \$500,000 for an organization, unless there is a substantial loss. State laws impose similar penalties.

The Communications Assistance for Law Enforcement Act may require that 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.

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 more recently 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 the digital advertising 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;
- 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 founders control the outcome of stockholder voting, and there may be an adverse effect on the price of our Class B common stock due to the disparate voting rights of our Class A common stock and our Class B common stock.

As of December 31, 2018, Russell C. Horowitz and Ethan A. Caldwell, two of our founders, beneficially owned 100% of the outstanding shares of our Class A common stock, which shares represented 77% of the combined voting power of all outstanding shares of our capital stock. These founders together controlled 78% of the combined voting power of all outstanding shares of our capital stock as of December 31, 2018. The holders of our Class A common stock and Class B common stock have identical rights except that the holders of our Class B common stock are entitled to one vote per share, while holders of our Class A common stock are entitled to twenty-five votes per share on all matters to be voted on by stockholders. This concentration of control could be disadvantageous to our other stockholders with interests different from those of these founders. This difference in the voting rights of our Class A common stock and Class B common stock could adversely affect the price of our Class B common stock to the extent that investors or any potential future purchaser of our shares of Class B common stock give greater value to the superior voting rights of our Class A common stock. Further, as long as these founders have a controlling interest, they will continue to be able to elect all or a majority of our board of directors and generally be able to determine the outcome of all corporate actions requiring stockholder approval. As a result, these founders will be in a position to continue to control all fundamental matters affecting our company, including any merger involving, sale of substantially all of the assets of, or change in control of, our company. The ability of these founders to control our company may result in our Class B common stock trading at a price lower than the price at which such stock would trade if these founders did not have a controlling interest in us. This control may deter or prevent a third party from acquiring us which could adversely affect the market price of our Class B common stock.

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

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

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

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

We may not 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 recently 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 New York, New York, 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 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. 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, 2017		
First Quarter	\$3.07	\$2.54
Second Quarter	\$3.03	\$2.60
Third Quarter	\$3.13	\$2.80
Fourth Quarter	\$3.50	\$3.05
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

Holders

As of March 14, 2019, there were approximately 2 and 36 stockholders of record of our Class A common stock and 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 2018, we did not have any share repurchases and 1,319,128 Class B common shares

remain available for purchase under the plan.

38

ITEM 6. SELECTED FINANCIAL DATA.

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

39

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 call analytics company that helps businesses connect, drive, measure and convert callers into customers. 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 consumer phone calls or texts 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, DoubleClick 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.** Launched in 2017, 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 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 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. With the acquisition of Callcap and Telmetrics, 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 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 DoubleClick 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 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 December 2017 eMarketer report, US advertisers are expected to spend nearly \$48 billion in 2018 and are projected to spend \$67 billion in 2021 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 of social media advertising has on inbound calls from platforms like Facebook or Instagram so marketers can see which posts are working. According to a December 2016 Zenith Media report, global social media is forecasted to grow 72% between 2016 and 2019, rising from \$29 billion to \$50 billion.

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 primary contracts with Yellowpages.com LLC (“YP”), we generate revenues from our local leads platform. This local leads platform arrangement, which expires December 31, 2019, provides YP flexibility to migrate active accounts to itself or a third-party provider prior to the end of an advertiser contract and provides YP with certain termination rights upon four months notice. In 2017, Dex Media, Inc. (“Dex”) acquired YP Holdings LLC (“YP Holdings”), which is the parent company of YP. We also have separate pay-for-call services and distribution partner agreements with YP and separate reseller partner arrangements with Dex for pay-for-call and call analytics services. YP including Dex (collectively “DexYP”) was responsible for 21% and 23% of our total revenues for the years ended December 31, 2017 and 2018, 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, 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.

The Company accounted for the Telmetrics and Callcap 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, 2017 and 2018.

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.

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.

44

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, 2017 (2017) to the year ended December 31, 2018 (2018) and comparison of the year ended December 31, 2016 (2016) to the year ended December 31, 2017 (2017).

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

2017 to 2018

Revenue decreased 6% from \$90.3 million in 2017 to \$85.3 million in 2018. This decrease was due primarily to fewer accounts and platform revenues from reseller partners like DexYP, and larger advertiser budget reductions for our pay-for-call services. These decreases were offset in part by an increase in revenue from our call analytics services including contribution from Telmetrics and Callcap, which we acquired in November 2018.

We expect our revenues to be modestly higher in the near term compared to the most recent quarters due to our recent acquisitions of Telmetrics and Callcap in November 2018, offset in part by lower revenues due to fewer small business accounts on our local leads platform.

Under one of our primary contracts with YP, we generate revenues from our local leads platform to sell call advertising and/or search marketing packages through their existing sales channels, which are then fulfilled by us across our distribution network. We are paid account fees and 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 YP, through which we charge an agreed-upon price for qualified calls or leads from our network. These agreements expire December 31, 2019. The local leads platform agreement provides YP flexibility to migrate active accounts to itself or a third-party provider prior to the end of an advertiser contract and provides YP with certain termination rights upon four-months prior notice. We expect YP 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. YP's small business account base utilizing our platform has declined, and to the extent declines occur in their business,

47

their small business accounts may spend fewer dollars on our pay-for-call services. We expect YP and local leads platform advertisers in future periods will comprise lower total revenues compared to previous periods and YP as a percentage of our total revenue may also comprise a smaller percentage of our total revenue. In 2017, Dex Media, Inc. (“Dex”) acquired YP Holdings, which is the parent company of YP. We have separate partner reseller agreements with Dex for pay-for-call and call analytics services. Dex may spend more dollars on our pay-for-call and call analytics services in the near term compared to previous periods if they expand their use of these service offerings. It is undetermined whether Dex’s use of these service offerings will continue prospectively at or near current levels or at all. YP including Dex (collectively “DexYP”) is our largest reseller partner and was responsible for 21% and 23% of our total revenues for the years ended December 31, 2017 and 2018, respectively. We also have a separate distribution partner agreement with YP. It is possible that changes to our relationship and agreements with DexYP may occur and result in a significant reduction in the paid account fees and agency fees that we receive from DexYP. There can be no assurance that our business with DexYP in the future will continue at or near current revenue and contribution levels, that we will be able to renew and extend the contracts, 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 10% and 14% of total revenues for the years ended December 31, 2017 and 2018, 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 17% and 20% of total revenues for the years ended December 31, 2017 and 2018, 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 similar to modestly lower compared to recent quarters, which will result in lower total revenues and contribution.

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 arrangements 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 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

48

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 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 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,					
	2017			2018		
		% of		% of		
	2017	revenue	2018	revenue		
Service costs	\$49,339	55 %	\$47,804	56 %		
Sales and marketing	15,652	17 %	13,788	16 %		
Product development	18,094	20 %	15,423	18 %		
General and administrative	13,567	15 %	10,881	13 %		
Amortization of intangible assets from						
acquisitions	—	—	781	1	%	
Acquisition related costs	—	0 %	462	1	%	
	\$96,652	107 %	\$89,139	105 %		

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,	
	2017	2018
Service costs	\$515	\$435
Sales and marketing	1,014	563
Product development	679	356
General and administrative	2,389	1,686
Total stock-based compensation	\$4,597	\$3,040

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 decreased 3% from \$49.3 million in 2017 to \$47.8 million in 2018. The net decrease in dollars was primarily due to an aggregate decrease in communication and network costs, facility related costs, and outside service provider costs totaling \$1.8 million, offset partially by an increase in distribution partner payments totaling \$394,000. As a percentage of revenue, service costs were 55% and 56% for 2017 and 2018, respectively. The increase as a percentage of revenue in 2018 was primarily the result of our local leads platform comprising a lower percentage of revenue compared to the 2017 period, offset in part by an increase in our call analytics platform revenues. 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 for service costs to be relatively stable to modestly higher relative to the most recent quarterly periods. We also expect service costs in absolute dollars to be higher in the near term compared to the most recent quarters due to our acquisitions of Telmetrics and Callcap 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 decreased 12% from \$15.7 million in 2017 to \$13.8 million in 2018. The decrease in dollars was primarily attributable to an aggregate decrease in personnel costs, which included \$307,000 of employee separation related costs in the 2017 period, stock-based compensation, outside service provider

costs, and facility related costs totaling \$1.8 million. As a percentage of revenue, sales and marketing expenses were relatively flat at 17% and 16% for 2017 and 2018, 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 relatively stable to modestly higher in absolute dollars relative to the most recent quarterly periods due to our recent acquisitions of Telmetrics and Callcap. 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.

50

Product Development. Product development expenses decreased 15% from \$18.1 million in 2017 to \$15.4 million in 2018. As a percentage of revenue, product development expenses were 20% and 18% for the years ended December 31, 2017 and 2018, respectively. The net decrease in dollars and percentage was primarily due to an aggregate decrease in personnel and outside service provider costs, which included \$358,000 of employee separation related costs in the 2017 period, stock-based compensation, and facility related costs totaling \$2.7 million.

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 Telmetrics and Callcap. 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 and as a result of additional stock-based compensation expense.

General and Administrative. General and administrative expenses decreased 20% from \$13.6 million in 2017 to \$10.9 million in 2018. As a percentage of revenue, general and administrative expenses were 15% and 13% for 2017 and 2018, respectively. The net decrease in dollars and percentage of revenue were primarily due to a decrease in personnel and outside service provider costs, stock-based compensation, professional fees, facility related costs, travel costs and bad debt expense totaling \$2.6 million.

We expect that our general and administrative expenses will be higher in the near term due to our recent acquisitions of Telmetrics and Callcap and modestly higher in the longer term to the extent that we expand our operations, and incur additional costs in connection with being a public company, including expenses related to professional fees and insurance, and as a result of stock-based compensation expense. We also expect fluctuations in our general and administrative expenses to the extent the recognition timing of stock compensation is impacted by market conditions relating to our stock price.

Amortization of Intangible Assets from Acquisitions. Intangible amortization expense was \$781,000 in 2018 and was associated with amortization of intangible assets acquired in the Telmetrics and Callcap acquisitions in November 2018. During 2018, 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 and Callcap acquisitions are \$21.5 million in aggregate 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 2018. 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. Acquisition related costs of \$462,000 were primarily for professional fees associated with our acquisitions of Telmetrics and Callcap in November 2018.

Income Taxes. The income tax benefit for the year ended December 31, 2018 was \$156,000 and was primarily related to 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% for 2018 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 \$13,000 of federal research and experimental credits for 2018.

The income tax expense from continuing operations was \$42,000 in 2017 and was primarily related to state income taxes. In 2017, the effective tax rate differed from the expected tax rate of 34% 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 \$157,000 of federal research and experimental credits for 2017.

On December 22, 2017, the 2017 Tax Act was signed into law making significant changes to U.S. federal corporate income tax law. Changes include, but are not limited to, a U.S. federal corporate tax rate decrease from 34% to 21% for years beginning after December 31, 2017, limitation on the utilization of NOLs arising after December 31, 2017, and imposing a one-time mandatory deemed repatriation tax on accumulated earnings of foreign subsidiaries for the year ended December 31, 2017. The reduction in the U.S. federal corporate tax rate decreased our net deferred tax balances by \$14.4 million, which was fully offset by a corresponding decrease to our deferred tax valuation allowance. We do not expect to pay U.S. federal cash taxes due to an accumulated deficit in foreign earnings for tax purposes related to the one-time mandatory deemed repatriation tax on foreign earnings. We recorded our provision for income taxes in accordance with the 2017 Tax Act and guidance available as of the date of this filing.

At December 31, 2018, 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 \$35.1 million will be realized and accordingly, we have recorded 100% valuation allowance of \$35.1 million against these deferred tax assets. This compares to a valuation allowance of \$32.7 million at December 31, 2017. 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 2017 and 2018.

Net Loss. Net loss was \$6.1 million in 2017 compared to net loss of \$2.7 million in 2018. The decrease in net loss was primarily attributable to the effect of fewer personnel and lower operating costs in 2018, which were partially offset by lower revenues and higher amortization of intangible assets from acquisitions in 2018.

Liquidity and Capital Resources

As of December 31, 2017, and 2018, we had cash and cash equivalents of \$104.2 million and \$45.2 million, respectively. As of December 31, 2018, we had current and long term contractual obligations of \$17.4 million, of which \$10.2 million is for rent under our facility operating leases and \$3.0 million is for contingent cash earnout payments related to the Telmetrics acquisition.

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, 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. Cash provided by operating activities for the year ended December 31, 2017 of approximately \$1.7 million consisted primarily of a net loss of \$6.1 million adjusted for non-cash items of \$7.6 million, which included depreciation and amortization, allowance for doubtful accounts and advertiser credits, stock-based compensation, and approximately \$165,000 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, 2017 and 2018. 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 arrangements, including our arrangements with resellers such as DexYP, 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 arrangements 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 arrangements 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, 2018, amounts from these partners and agencies totaled 49% of revenue and \$8.1 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 20% of total revenues for the year ended December 31, 2018 and 31% of accounts receivable as of December 31, 2018. We expect in the near to intermediate term campaign spend levels related to State Farm to be similar to modestly lower compared to recent quarters, which will result in lower total revenues and contribution. Net accounts receivable balances outstanding as of December 31, 2018 from DexYP totaled \$2.4 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.

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. Cash used in investing activities for

53

the year ended December 31, 2017 of \$1.6 million was primarily attributable to purchases for property and equipment.

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 stable to modestly higher in the near and intermediate term 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.

Cash used in financing activities for the year ended December 31, 2018 of approximately \$27.4 million was primarily attributable to common stock dividend payments. Cash provided by financing activities for the year ended December 31, 2017 of approximately \$125,000 was primarily attributable to proceeds from employee stock option exercises and the employee stock purchase plan.

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. During the first quarter of 2019, we committed \$2.5 million in funding for a strategic technology initiative over the next 12 months.

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 will be reduced by \$100,000 annually starting in April 2019.

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, 2017 and 2018. 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.

54

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; and
- Provision for income taxes.

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

55

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.

56

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. We will continue to monitor our financial performance, stock price and other factors in order to determine if there are any indicators of impairment prior to our annual impairment evaluation in November 2019.

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

57

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. On January 1, 2017, previously unrecognized excess tax benefits of \$3.7 million were recorded to accumulated deficit and an increase to our deferred tax assets with a corresponding change to the valuation allowance as a result of the adoption of ASU 2016-09. This resulted in no net impact to equity due to the Company's full valuation allowance. We also adopted ASU 2015-17, on January 1, 2017, which requires all deferred tax assets and liabilities, and any related valuation allowance, to be classified as non-current on the balance sheet. The adoption of this standard did not have any impact on the Company's financial statements due to the full valuation allowance recorded on our deferred taxes. Uncertain tax positions as of December 31, 2017 and 2018 amounted to \$1.1 million and \$1.2 million, respectively.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") was signed into law making significant changes to U.S. federal corporate income tax law. Changes include, but are not limited to, a U.S. federal corporate tax rate decrease from 34% to 21% for years beginning after December 31, 2017, limitation on the utilization of NOLs arising after December 31, 2017, and imposing a one-time mandatory deemed repatriation tax on accumulated earnings of foreign subsidiaries for the year ended December 31, 2017. The reduction in the U.S. federal corporate tax rate decreased the Company's net deferred tax balances by \$14.4 million, which was fully offset by a corresponding decrease to its deferred tax valuation allowance. The Company does not expect to pay U.S. federal cash taxes due to an accumulated deficit in foreign earnings for tax purposes related to the one-time mandatory deemed repatriation tax on foreign earnings. The Company recorded its provision for income taxes in accordance with the 2017 Tax Act with no material changes made to positions considered provisional as of December 31, 2017.

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, 2017 and December 31, 2018. 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, 2018, our federal NOL carryforwards were approximately \$79.6 million for income tax purposes, and federal research and development credit carryforwards of \$5.0 million for income tax purposes, which are potentially available to offset future tax liabilities. As of December 31, 2018, our state, city, and other foreign jurisdiction NOL carryforwards were approximately \$6.4 million, which begin to expire in 2025.

In addition, at December 31, 2017 and 2018, we have certain federal NOL carryforwards of approximately \$1.7 million, which prior to the 2017 Tax Act were set to begin to expire in 2019. The Tax Reform Act of 1986 limits the

use of NOL and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. We believe that such a change has occurred 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.

58

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.

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.

60

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.
INDEX TO FINANCIAL STATEMENTS

	Page
Marchex, Inc.	
<u>Reports of Independent Registered Public Accounting Firm</u>	62
<u>Consolidated Balance Sheets as of December 31, 2017 and 2018</u>	65
<u>Consolidated Statements of Operations for the years ended December 31, 2017 and 2018</u>	66
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2017 and 2018</u>	67
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2018</u>	68
<u>Notes to Consolidated Financial Statements</u>	69

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, 2018 and 2017, 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”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for 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, 2018, 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 18, 2019, expressed an unqualified opinion on the Company’s internal control over financial reporting.

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 18, 2019

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

62

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, 2018, 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, 2018, 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, 2018 and 2017, 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 18, 2019, expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph relating to change in accounting principle.

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 November 2018, the Company acquired Telmetrics, Inc. ("Telmetrics") and SITA Laboratories (d/b/a Callcap) ("Callcap"). For the purposes of assessing internal control over financial reporting, management excluded Telmetrics and Callcap, whose financial statements constitute approximately 3% of the Company's consolidated total assets (excluding \$45.1 million of goodwill and intangible assets, which were integrated into the Company's control environment) and approximately 3% of consolidated revenue as of and for the year ended December 31, 2018. Accordingly, our audit did not include the internal control over financial reporting of Telmetrics and Callcap.

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 18, 2019

MARCHEX, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except per share amounts)

	As of December 31,	
	2017	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 104,190	\$ 45,230
Accounts receivable, net	14,860	16,198
Prepaid expenses and other current assets	2,041	2,657
Total current assets	121,091	64,085
Property and equipment, net	2,405	2,921
Other assets, net	326	917
Goodwill	—	24,442
Intangible assets from acquisitions, net	—	20,697
Total assets	\$ 123,822	\$ 113,062
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,928	\$ 5,968
Accrued expenses and other current liabilities	5,585	5,807
Current portion of acquisition-related liabilities	—	1,215
Deferred revenue and deposits	313	1,782
Dividends payable	21,907	—
Total current liabilities	32,733	14,772
Other non-current liabilities	1,090	1,287
Deferred tax liabilities	—	1,531
Non-current portion of acquisition-related liabilities	—	446
Total liabilities	33,823	18,036
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, 2017 and 2018	53	53
Class B: 125,000 shares authorized; 38,736 shares issued and outstanding at December 31, 2017, including 710 shares of restricted stock; and 36,965 shares issued and outstanding, at December 31, 2018, including 574 shares of restricted stock	387	370
Additional paid-in capital	343,268	350,801
Accumulated deficit	(253,709)	(256,198)
Total stockholders' equity	89,999	95,026

Total liabilities and stockholders' equity	\$123,822	\$113,062
--	-----------	-----------

See accompanying Notes to Consolidated Financial Statements.

65

MARCHEX, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(in thousands, except per share amounts)

	Years ended December 31,	
	2017	2018
Revenue	\$90,291	\$85,251
Expenses:		
Service costs ⁽¹⁾	49,339	47,804
Sales and marketing ⁽¹⁾	15,652	13,788
Product development ⁽¹⁾	18,094	15,423
General and administrative ⁽¹⁾	13,567	10,881
Amortization of intangible assets from acquisitions ⁽²⁾	—	781
Acquisition related costs	—	462
Total operating expenses	96,652	89,139
Loss from operations	(6,361)	(3,888)
Interest income and other, net	316	1,054
Loss before provision for income taxes	(6,045)	(2,834)
Income tax expense (benefit)	42	(156)
Net loss	(6,087)	(2,678)
Dividends applicable to participating securities	(355)	—
Net loss applicable to common stockholders	\$(6,442)	\$(2,678)
Basic and diluted net loss per Class A share applicable to common stockholders	\$(0.16)	\$(0.06)
Basic and diluted net loss per Class B share applicable to common stockholders	\$(0.15)	\$(0.06)
Dividends per share	\$0.50	\$—
Shares used to calculate basic net loss per share		
applicable to common stockholders:		
Class A	5,056	5,056
Class B	37,657	37,390
Shares used to calculate diluted net loss per share		
applicable to common stockholders:		
Class A	5,056	5,056
Class B	42,713	42,446
(1) Excludes amortization of intangibles from acquisitions		
(2) Components of amortization of intangibles from acquisitions:		
Service costs	\$—	\$302
Sales and marketing	—	295
Product development	—	—
General and administrative	—	184
Total	\$—	\$781

See accompanying Notes to Consolidated Financial Statements.

66

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, 2016	5,056	\$ 53	38,004	\$ 380	—	—	\$ 360,422	\$(247,584)	\$ 113,271
Issuance of common stock upon exercise of options, issuance									
and vesting of restricted stock and under employee stock									
purchase plan, net	—	—	971	9	(239)	(2)	118	—	125
Stock compensation from options and restricted stock, net of									
forfeitures	—	—	—	—	—	—	4,597	—	4,597
Cumulative effect of a change in accounting principle related to stock-based compensation	—	—	—	—	—	—	38	(38)	—
Retirement of treasury stock	—	—	(239)	(2)	239	2	—	—	—
Common stock cash dividends declared	—	—	—	—	—	—	(21,907)	—	(21,907)
Net loss	—	—	—	—	—	—	—	(6,087)	(6,087)
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									
Stock 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

See accompanying Notes to Consolidated Financial Statements.

MARCHEX, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(in thousands)

	Years ended December 31,	
	2017	2018
Cash flows from operating activities:		
Net loss	\$ (6,087)	\$ (2,678)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization and depreciation	2,791	2,598
Accretion of interest expense	—	50
Allowance for doubtful accounts and advertiser credits	226	399
Deferred income taxes	—	(185)
Stock-based compensation	4,597	3,040
Change in certain assets and liabilities:		
Accounts receivable, net	3,836	254
Prepaid expenses, other current assets, and other assets	48	76
Accounts payable	(1,963)	618
Accrued expenses and other current liabilities	(1,763)	(211)
Deferred revenue and deposits	(36)	1,087
Other non-current liabilities	43	3
Net cash provided by operating activities	1,692	5,051
Cash flows from investing activities:		
Purchases of property and equipment	(1,562)	(1,651)
Purchases of intangibles and changes in other non-current	(15)	(577)

Edgar Filing: MARCHEX INC - Form 10-K

assets		
Cash paid for acquisitions	—	(34,335)
Net cash used in investing activities	(1,577)	(36,563)
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	125	136
Net cash provided by (used in) financing activities	125	(27,448)
Net increase (decrease) in cash and cash equivalents	240	(58,960)
Cash and cash equivalents at beginning of period	103,950	104,190
Cash and cash equivalents at end of period	\$ 104,190	\$ 45,230
Supplemental disclosure of cash flow information:		
Cash received (paid) during the period for income taxes, net of refunds	16	(49)
Cash received during the period for interest, net	297	1,074
Supplemental disclosure of non-cash investing and financing activities:		
Deferred issuance of Class B common stock in connection with acquisition	\$ —	\$ 10,017
Common stock cash dividends declared and not paid	21,907	—
Leasehold improvement incentive recorded in other current/non-current assets	553	113

and other non-current liabilities

Property and equipment acquired in accounts payable and		
accrued expenses	88	33
Acquisition-related liabilities not paid	—	1,509
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, we 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. 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, 2017 and 2018: cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and dividends payable. The carrying value of these financial instruments approximates their fair value based on the liquidity of these financial instruments and their short-term nature. 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.

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):

	Balance at beginning of period	Charged to costs and expenses	Write-offs, net of recoveries	Balance at end of period
December 31, 2017	499	161	34	626
December 31, 2018	626	45	23	648

Allowance for Advertiser Credits

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

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

	Balance at beginning of period	Additions charged against revenue	Credits processed and other (1)	Balance at end of period
December 31, 2017	938	65	390	613
December 31, 2018	613	352	394	571

(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, 2017 the Company had no goodwill on its balance sheet. As of the year ended December 31, 2018, the Company had goodwill of \$24.4 million. See Note 8. Acquisitions 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 we expect 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, 2018, revenues disaggregated by service type were \$78.7 million for performance based advertising services and \$6.6 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 as of December 31, 2018, 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. Customer payments received in advance of revenue recognition are contract liabilities and are recorded as deferred revenue. During the year ended December 31, 2018, revenue recognized that was included in the contract liabilities balance at the beginning of the period was \$148,000.

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 of 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, 2018, the Company had \$316,000 of net deferred contract costs and the amortization associated with

these costs was \$338,000 for the year ended December 31, 2018.

(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

72

that to a lesser degree exist include: 1) variable payments based on a specified metric, such as number of paid calls 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 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 \$1.6 million and \$1.5 million for the years ended December 31, 2017 and 2018, 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.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") was signed into law making significant changes to the U.S. federal corporate income tax law which included a decrease in the U.S. federal corporate rate from 34% to 21%. See Note 4. Income Taxes of the Notes to Consolidated Financial Statements for further discussion.

(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.

73

On January 1, 2017, the Company adopted Accounting Standards Update No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). Under ASU 2016-09, excess tax benefits generated when stock-based awards vest or are settled are no longer recognized in equity but are instead recognized as a reduction to the provision for income taxes. On January 1, 2017, the Company recorded unrecognized excess tax benefits of \$3.7 million to accumulated deficit, with a corresponding increase to the valuation allowance on deferred tax assets. This resulted in no net impact to equity due to the Company's full valuation allowance. This guidance also requires excess tax benefits to be presented as an operating activity on the statement of cash flows.

(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 2017 and 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, 2017 and 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,	
	2017	2018
Advertiser A	21 %	23 %
Advertiser B	17 %	19 %

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, 2017 2018	
Advertiser A	17 %	15 %
Advertiser B	31 %	31 %
Advertiser C	10 %	*

*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 10% and 14% of consolidated revenue for the years ended December 31, 2017 and 2018, respectively. This same advertising agency represented 21% and 23% of accounts receivable as of December 31, 2017 and 2018, respectively. One other advertising agency represented 11% and less than 10% of accounts receivable as of December 31, 2017 and 2018, respectively.

There were no distribution partners paid more than 10% of consolidated revenue for the years ended December 31, 2017 and 2018.

(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):

75

Edgar Filing: MARCHEX INC - Form 10-K

	Twelve months ended December 31,			
	2017		2018	
	Class A	Class B	Class A	Class B
Basic net loss per share:				
Numerator:				
Net loss	\$(786)	\$(5,301)	\$(319)	\$(2,359)
Dividends applicable to participating securities	—	(355)	—	—
Net loss applicable to common stockholders	\$(786)	\$(5,656)	\$(319)	\$(2,359)
Denominator:				
Weighted average number of shares				
outstanding used to calculate basic net				
loss per share	5,056	37,657	5,056	37,390
Basic net loss per share applicable to				
common stockholders	\$(0.16)	\$(0.15)	\$(0.06)	\$(0.06)

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,			
	2017		2018	
	Class A	Class B	Class A	Class B
Diluted net loss per share:				
Numerator:				
Net loss	\$(786)	\$(5,301)	\$(319)	\$(2,359)
Dividends applicable to participating securities	—	(355)	—	—
Reallocation of net loss for Class A shares as				
a result of conversion of Class A to Class B				
shares	—	(786)	—	(319)
Net loss applicable to common				
stockholders	\$(786)	\$(6,442)	\$(319)	\$(2,678)
Denominator:				
Weighted average number of shares				
outstanding used to calculate basic net				
loss per share	5,056	37,657	5,056	37,390
Conversion of Class A to Class B common	—	5,056	—	5,056

shares outstanding				
Weighted average number of shares				
outstanding used to calculate diluted net				
loss per share	5,056	42,713	5,056	42,446
Diluted net loss per share applicable				
to common stockholders	\$(0.16)	\$(0.15)	\$(0.06)	\$(0.06)

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, 2017 and 2018, outstanding options to acquire 5,713 and 5,511 shares, respectively, of Class B common stock.

For the years ended December 31, 2017 and 2018, 710 and 574 shares of unvested Class B restricted common shares, respectively.

For the years ended December 31, 2017 and 2018, 1,161 and 690 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 June 2018, the FASB issued Accounting Standards Update No. 2018-07, Compensation - Stock Compensation (Topic 718) Improvements to Nonemployee Share-Based Payment Accounting (ASU 2018-07), an ASU which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The ASU is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The Company will adopt the ASU beginning Q1 2019 and it does not expect adoption of ASU 2018-07 to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 Leases (Topic 842) (ASU 2016-02), an ASU requiring the recognition of lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. In July 2018, the FASB issued Accounting Standards Update No. 2018-11, Leases (Topic 842) – Targeted Improvements (ASU 2018-11), which provides entities with an additional (and optional) transition method to adopt the new lease standard. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than

12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The new standard is effective for the Company on January 1, 2019. The Company adopted the new standard on its effective date. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. If an entity chooses the second option, the transition requirements for existing leases also apply to leases entered into between

the date of initial application and the effective date. The entity must also recast its comparative period financial statements and provide the disclosures required by the new standard for the comparative periods. The Company adopted the new standard on January 1, 2019 and used the effective date as its date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will 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.

This standard will have a material effect on the Company’s financial statements. The most significant effects relate to the recognition of new ROU assets and lease liabilities on its balance sheet for its office and operating leases and providing significant new disclosures about its leasing activities. On adoption, the Company expects to recognize additional operating lease liabilities of approximately \$8.5 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 currently expects to elect the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, the Company will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. The Company also currently expects to elect the practical expedient to not separate lease and non-lease components for all of our leases.

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. The Company does not expect adoption of ASU 2018-19 and ASU 2016-13 to have a material impact on its consolidated financial statements.

(2) Property and Equipment

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

	Years ended December 31,	
	2017 ⁽¹⁾	2018 ⁽¹⁾
Computer and other related equipment	\$19,157	\$18,839
Purchased and internally developed software	6,687	6,878
Furniture and fixtures	1,071	1,023
Leasehold improvements	1,168	1,275
	\$28,083	\$28,015

Edgar Filing: MARCHEX INC - Form 10-K

Less: accumulated depreciation and amortization	(25,678)	(25,094)
Property and equipment, net	\$2,405	\$2,921

(1) Includes the original cost and accumulated depreciation of fully-depreciated fixed assets which were \$21.7 million and \$23.5 million at December 31, 2017 and 2018, respectively.

Depreciation and amortization expense related to property and equipment was approximately \$2.8 million and \$1.5 million for the years ended December 31, 2017 and 2018, respectively.

78

(3) 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 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
2019	\$ 1,569	\$ 3,524	\$ 5,093
2020	1,613	425	2,038
2021	1,643	248	1,891
2022	1,613	4	1,617
2023 and after	3,804	—	3,804
Total minimum payments	\$ 10,242	\$ 4,201	\$ 14,443

In June 2017, the Company entered into an amendment to the lease agreement originally dated in June 2009 and as amended to date, with respect to office space in Seattle, Washington. The amendment extends the lease term for a period of 84 months expiring on March 31, 2025 and reduces the leased office space starting on September 1, 2017. 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, the lessor will pay towards the cost of certain leasehold improvements (“landlord contribution”) of which the Company may use up to approximately \$180,000 of any unused landlord contribution as a credit against any payment obligation under the lease. In 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 will be reduced by \$100,000 annually starting in April 2019. The letter of credit is collateralized by a \$575,000 certificate of deposit which is restricted in use and is included in other assets in the Company’s condensed consolidated balance sheet as of December 31, 2018.

Rent expense incurred by the Company was approximately \$2.0 and \$1.5 million for the years ended December 31, 2017 and 2018, respectively.

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 \$1.5 million and is recorded on the balance sheet in acquisition-related liabilities.

During the first quarter of 2019, the Company committed \$2.5 million in funding for a strategic technology initiative over the next 12 months.

(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.

(4) Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") was signed into law making significant changes to U.S. federal corporate income tax law. Changes include, but are not limited to, a U.S. federal corporate tax rate decrease from 34% to 21% for years beginning after December 31, 2017, limitation on the utilization of NOLs arising after December 31, 2017, and imposing a one-time mandatory deemed repatriation tax on accumulated earnings of foreign subsidiaries for the year ended December 31, 2017. The reduction in the U.S. federal corporate tax rate decreased the Company's net deferred tax balances by \$14.4 million which was fully offset by a corresponding decrease to its deferred tax valuation allowance. The Company does not expect to pay U.S. federal cash taxes due to an accumulated deficit in foreign earnings for tax purposes related to the one-time mandatory deemed repatriation tax on foreign earnings. The Company recorded its provision for income taxes in accordance with the 2017 Tax Act and guidance available as of the date of this filing.

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

	Years ended December 31,	
	2017	2018
United States	\$(6,022)	\$(2,312)
Foreign	(23)	(522)
Loss before provision for income taxes	\$(6,045)	\$(2,834)

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

	Years ended December 31, 20172018	
Current federal provision		
Federal	\$—	\$(48)
State	42	30
Deferred provision (benefit)		
Foreign	—	(138)

Edgar Filing: MARCHEX INC - Form 10-K

Total income tax expense (benefit) \$42 \$(156)

Income tax expense 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,	
	2017	2018
Income tax benefit at U.S. statutory rate	\$(2,055)	\$(595)
State taxes, net of valuation allowance	28	24
Stock-based compensation (1)	2,396	378
Impact of 2017 Tax Act	14,413	—
Valuation allowance	(14,638)	(83)
Research tax credits	(156)	(13)
Other expenses	54	133
Total income tax expense (benefit)	\$42	\$(156)

80

(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 34% and 21% U.S. federal statutory rate for 2017 and 2018, respectively (in thousands):

	As of December	
	31,	2018
	2017	2018
Deferred tax assets:		
Accrued liabilities not currently deductible	\$721	\$612
Intangible assets-excess of financial statement		
over tax amortization	939	873
Goodwill recognized on financial statements in		
excess of tax amortization	3,750	2,494
Stock-based compensation	1,680	1,894
Federal net operating losses	15,887	17,639
State, local and foreign net operating loss carryforwards	5,403	6,395
Research & experimental tax and other credit carryforwards	3,832	3,888
Other	456	1,320
Gross deferred tax assets	32,668	35,115
Valuation allowance	(32,668)	(35,057)
Net deferred tax assets	\$—	\$58
Deferred tax liabilities:		
Intangible assets-excess of tax over		
financial statement amortization	—	(1,589)
Net deferred tax liabilities	\$—	\$(1,531)

On January 1, 2017, the Company adopted ASU 2016-09 and recorded previously unrecognized tax benefits of \$3.7 million to accumulated deficit with a corresponding increase to the valuation allowance on deferred tax assets. ASU 2016-09 requires excess tax benefits and shortfalls to be recognized as a component of income tax expense.

As of December 31, 2018, the Company's federal NOL carryforwards were approximately \$79.6 million and federal research and development credit carryforwards of \$5.0 million for income tax purposes, which are potentially available to offset future tax liabilities. As of December 31, 2018, the Company's state, city, and other foreign jurisdiction NOL carryforwards were approximately \$6.4 million, which begin to expire in 2025.

In addition, at December 31, 2017 and 2018, the Company had certain federal NOL carryforwards of approximately \$1.7 million, which prior to the 2017 Tax Act were set to begin to expire in 2019. The Tax Reform Act of 1986 limits the use of NOL and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. The Company believes that such a change has occurred related to these specific NOL carryforwards, and

that the utilization of the approximately \$1.7 million in carryforwards is limited such that substantially all of these NOL carryforwards will 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, 2017 and 2018, the Company recorded a valuation allowance of \$32.7 million, and \$35.1 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, 2017 and 2018 was \$(12.1) million and \$2.4 million, respectively. The decrease in the valuation allowance in 2017 was primarily a result of the 2017 Tax Act which reduced the U.S. federal corporate tax rate from 34% to 21%. This resulted in a decrease in the Company's deferred tax balances of \$14.6 million with a corresponding decrease in the valuation allowance.

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, and 2018. 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, 2017 to December 31, 2018 which are recorded as an offset to deferred tax assets (in thousands):

Gross tax contingencies—December 31, 2016	\$ 1,070
Gross increases to tax positions associated with prior periods	\$—
Gross increases to current period tax positions	\$52
Gross decreases to tax positions associated with prior periods	\$—
Settlements	\$—
Lapse of statute of limitations	\$—
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	\$1,158
---	---------

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.

(5) 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. During the year ended December 31, 2017, the Company repurchased 239,000 shares of Class B common stock for approximately \$2,000. During the year ended December 31, 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 2018. During the year ended December 31, 2017, the Company's board of directors authorized the retirement of 239,000 shares of the Company's Class B common stock, all of which have been repurchased by the Company. 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.

(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 2,189,624 and 2,101,062 on January 1, 2018 and 2019, respectively, bringing the aggregate authorized number of shares available under the 2012 plan to 17,945,220. 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 2017 and 2018.

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,	
	2017	2018
Service costs	\$515	\$435
Sales and marketing	1,014	563
Product development	679	356
General and administrative	2,389	1,686
Total stock-based compensation	\$4,597	\$3,040

For the years ended December 31, 2017 and 2018, 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, 2017 and 2018, 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.

Edgar Filing: MARCHEX INC - Form 10-K

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

	Years ended December 31,	
	2017	2018
Expected life (in years)	4.00 – 6.25	4.00 – 6.25
Risk-free interest rate	1.68% – 2.09%	2.54% – 2.93%
Expected volatility	54% to 56%	41% to 53%
Weighted average expected volatility	56%	49%
Expected dividend yield	0% – 3.91%	0% – 3.7%

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, 2017	7,762	5,713	\$ 5.33	5.93	\$ 604
Increase to pool January 1, 2018	2,190	—			
Options granted	(897)	897	\$ 2.83		
Restricted stock granted	(445)	—			
Restricted stock forfeited	402	—			
Options exercised	—	(33)	\$ 2.65		
Options expired	730	(730)	\$ 6.03		
Options forfeited	336	(336)	\$ 3.20		
Balance at December 31, 2018	10,078	5,511	\$ 4.98	5.53	\$ 24
Options exercisable at December 31, 2018		3,777	\$ 5.90	4.07	\$ 9

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

Edgar Filing: MARCHEX INC - Form 10-K

	Years ended December 31,	
	2017	2018
Weighted average fair value of options granted	\$1.29	\$1.20
Intrinsic value of options exercised (in thousands)	\$11	\$14
Total grant date fair value of restricted stock vested (in thousands)	\$3,686	\$2,845

At December 31, 2018, 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 2.6 years.

During both the years ended December 2017 and 2018, gross proceeds recognized from the exercise of stock options was \$89,000.

85

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

	Shares/ Units	Weighted Average Grant Date	Fair Value
	(in thousands)		
Unvested at December 31, 2017	1,871		\$ 3.25
Granted	445		2.82
Vested	(650)		4.37
Forfeited	(402)		3.34
Unvested at December 31, 2018	1,264		3.28

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, 2018, there was \$3.0 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 2.1 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, 2017, 9,906 shares were purchased at prices ranging from \$2.58 to \$3.07 per share. During the year ended December 31, 2018, 16,175 shares were purchased at prices ranging from \$2.52 to \$2.91 per share.

(6) 401(k) Savings Plan

The Company has a Retirement/Savings Plan (401(k) Plan) under Section 401(k) of the Internal Revenue Code, which covers those employees that meet eligibility requirements. Eligible employees may contribute up to the Internal Revenue Code prescribed maximum amounts. During 2011, the Company elected to match a portion of the employee contributions up to a defined maximum. In 2017 and 2018, cash contributions were made in the amount of \$253,000 and \$189,000 respectively.

(7) 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, 2017 and 2018, 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,	
	2017	2018
United States	96 %	99 %
Canada	4 %	1 %
Other countries	*	*
	100%	100 %

*Less than 1% of revenue

(8) 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 \$1.5 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. As of December 31, 2018, the amount recognized for the contingent consideration arrangement, the range of outcomes, and the assumptions used to develop the estimates had not changed. 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 will ultimately be released in the event no indemnification obligations are identified. In the event any indemnification obligations are identified, the purchase price 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 as of December 31, 2018 (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	5,411
Total	\$11,700

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 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 in the event no indemnification obligations are identified. In the event any indemnification obligations are identified, the purchase price may be reduced accordingly.

The following summarizes the preliminary estimated fair value of the assets acquired and the liabilities assumed as of December 31, 2018 (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	\$35,010

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 future cash flows after the acquisition of Callcap. The goodwill is deductible for federal tax purposes.

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

The following unaudited pro forma financial information summarizes the combined results of operations of the Company, Telmetrics, and Callcap, and is based on the historical results of operations of the Company, Telmetrics, and Callcap. The pro forma information reflects the results of operations of the Company as if the acquisitions of Telmetrics and Callcap had taken place on January 1, 2017. The unaudited pro forma financial information for the year ended December 31, 2017 combine the historical results of operations for the Company, Telmetrics, and Callcap for the year ended December 31, 2017. 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. The pro forma information 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 statement 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.

	(Unaudited) (in thousands) Years ended December 31,	
	2017	2018
Revenue	\$110,905	\$102,339
Net loss	(9,852)	(4,338)
Net loss applicable to common stockholders	(10,207)	(4,338)

89

(9) Identifiable Intangible Assets from Acquisitions

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

	As of December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	\$12,368	\$ 295	\$12,073
Technologies	5,879	258	5,621
Non-compete agreements	2,559	184	2,375
Tradenames	672	44	628
Total identifiable intangible assets from acquisitions	\$21,478	\$ 781	\$20,697

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, 3 years, 2 years, 1 - 2 years, respectively. Aggregate amortization expense incurred by the Company for the year ended December 31, 2018 was approximately \$781,000. 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: \$6.2 million in 2019, \$5.7 million in 2020, \$4.2 million in 2021, \$2.5 million in 2022, and \$2.1 million thereafter.

(10) Goodwill

Changes in the carrying amount of goodwill for the years ended December 31, 2017 and 2018 are as follows (in thousands):

Balance as of December 31, 2016 and 2017	\$—
Callcap acquisition	19,031
Telmetrics acquisition	5,411
Balance as of December 31, 2018	\$24,442

We perform our 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 2018. 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 common stock and market capitalization.

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, 2018 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, 2018.

The scope of management’s assessment as of December 31, 2018, did not include an assessment of the internal controls over financial reporting for Telmetrics, Inc. (“Telmetrics”) and SITA Laboratories, Inc. (d/b/a Callcap) (“Callcap”), which both were acquired in November 2018. Telmetrics and Callcap in aggregate constituted approximately 3% of both our consolidated total assets as of December 31, 2018 and our consolidated revenues for the year ended December 31, 2018. Management did not assess the effectiveness of internal control over financial reporting of these entities because of the timing of the acquisitions 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

During the quarter ended December 31, 2018, no change was made to our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, 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.

92

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 2019 annual meeting of stockholders (the "2019 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, 2018.

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 2019 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, 2018.

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 2019 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, 2018.

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

The information required under this item may be found in the 2019 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, 2018.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required under this item may be found in the 2019 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, 2018.

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, 2017 and 2018;
- Consolidated Statements of Operations for the years ended December 31, 2017 and 2018;
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 2017 and 2018;
- Consolidated Statements of Cash Flow for the years ended December 31, 2017 and 2018; 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 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).
- 2.2 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).
- 2.3 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).
- ++2.4 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).
- +†2.5 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.
- +†2.6 Share Purchase Agreement, dated as of November 20, 2018, by and among the Registrant, Sita Laboratories, Inc., the Sellers and the Stockholder Representative.
- 3.1 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).
- 3.2 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).
- 4.1 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).
- *10.1 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).

- *10.2 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).
- ++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).

Exhibit

Number Description of Document

- *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.
- †††*10.15 Form of Incentive Stock Option Notice and Agreement (2012 Stock Incentive Plan).
- †††*10.16 Form of Nonstatutory Stock Option Notice and Agreement (2012 Stock Incentive Plan).
- †††*10.17 Form of Restricted Stock Agreement (2012 Stock Incentive Plan).
- †††*10.18 Form of Restricted Stock Units Notice and Agreement (2012 Stock Incentive Plan).
- ++†††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.

†††*10.20 Form of Indemnity Agreement (Section 16 Executive Officers and Directors).

++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).

Edgar Filing: MARCHEX INC - Form 10-K

Exhibit Number	Description of Document
++10.22	<u>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).</u>
++10.23	<u>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).</u>
++10.24	<u>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).</u>
+10.25	<u>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).</u>
+10.26	<u>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).</u>
+10.27	<u>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).</u>
+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>
+10.2	<u>9 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 Amended and Restated Executive Employment Agreement effective as of April 21, 2016, by and between Ethan Caldwell and the Registrant (incorporated by reference to Exhibit 10.51 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 9, 2016).
- *10.32 Separation Agreement dated May 11, 2016, by and between Russell C. Horowitz and the Registrant incorporated by reference to Exhibit 10.55 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 9, 2016).

Exhibit

Number Description of Document

- 10.33 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).
- ++10.34 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).
- *10.35 First Amendment to Agreement dated May 12, 2017, by and between Russell C. Horowitz and the Company (incorporated by reference to Exhibit 10.45 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 4, 2017).
- 10.36 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).
- ++10.37 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).
- ++10.38 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).
- ++10.39 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).
- ++10.40 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).
- 10.41 Stock Repurchase Agreement, dated as of May 31, 2018, by and between the Registrant and Nicolas Hanauer, as Selling Stockholder (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on June 1, 2018).
- †10.42 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).

†10.43 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).

+†10.44 Research Services Agreement effective December 1, 2017, by and between Telmetrics Inc. and Dex Media, Inc.

98

Exhibit

Number Description of Document

16.1 Letter from KPMG LLP to the SEC dated June 28, 2017 (incorporated by reference to Exhibit 16.1 to the Registrant's Current Report on Form 8-K filed with the SEC on June 28, 2017).

†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. INSBRL Instance Document.

†101.SCHBRL Taxonomy Extension Schema Document.

†101.CALBRL Taxonomy Extension Calculation Linkbase Document.

†101.DEFBRL Taxonomy Extension Definition Linkbase Document.

†101.LABBRL Taxonomy Extension Labels Linkbase Document.

†101.PREBRL Taxonomy Presentation Linkbase Document.

*Management contract or compensatory plan or arrangement.

(+) Certain information in this agreement has been omitted and filed separately with the Securities and Exchange Commission ("SEC"). Confidential treatment has been requested with respect to the omitted portions.

(+)(+) 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.

Furnished herewith.

Filed herewith pursuant to Regulation S-K Item 10.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Seattle, State of Washington on March 18, 2019.

MARCHEX, INC.

By: /S/ MICHAEL A. ARENDS

Michael A. Arends

Chief Financial Officer and member of the Office of the CEO

(Principal Executive Officer for SEC reporting purposes, Principal Financial Officer and Principal Accounting Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Michael A. Arends, as his or her attorney-in-fact, with the full power of substitution, for him or her, in any and all capacities, to sign any amendment to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting to said attorney-in-fact, and with full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature

Date

/S/ MICHAEL A. ARENDS

March 18,
2019

Michael A. Arends

Chief Financial Officer and member of the Office of the CEO

(Principal Executive Officer for SEC reporting purposes, Principal Financial Officer and Principal Accounting Officer)

/S/ RUSSELL C. HOROWITZ

March 18,
2019

Russell C. Horowitz

Executive Director and member of the Office of the CEO

/S/ DENNIS CLINE

March 18,
2019

Dennis Cline

Director

/S/ ANNE DEVEREUX – MILLS

March 18,
2019

Anne Devereux – Mills

Chairman and Director

/S/ M. WAYNE WISEHART

March 18,
2019

M. Wayne Wishart

Director

100