

MARCHEX INC
Form 10QSB
November 15, 2004
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2004

.. 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 small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

35-2194038
(IRS Employer
Identification No.)

Edgar Filing: MARCHEX INC - Form 10QSB

413 Pine Street, Suite 500

Seattle, Washington 98101

(Address of principal executive offices)

Issuer's telephone number: (206) 331-3300

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at</u> <u>November 12, 2004</u>
Class A common stock, par value \$.01	11,987,500
Class B common stock, par value \$.01	13,496,256

Transitional Small Business Disclosure Format: Yes No

Table of Contents

Marchex, Inc.

Form 10-QSB

Table of Contents

	Page

<u>Part I Financial Information</u>	
Item 1. <u>Financial Statements (unaudited).</u>	3
<u>Condensed Consolidated Balance Sheets – September 30, 2004 and December 31, 2003.</u>	3
<u>Condensed Consolidated Statements of Operations – Period from January 1 to February 28, 2003 (Predecessor Period), period from January 17, 2003 (Inception) to September 30, 2003, nine months ended September 30, 2004, and quarters ended September 30, 2004 and 2003 (Successor Periods).</u>	4
<u>Condensed Consolidated Statements of Cash Flows – Period from January 1 to February 28, 2003 (Predecessor Period), period from January 17, 2003 (Inception) to September 30, 2003, nine months ended September 30, 2004 and quarters ended September 30, 2004 and 2003 (Successor Periods).</u>	5
Item 2. <u>Management’s Discussion and Analysis.</u>	12
Item 3. <u>Controls and Procedures.</u>	41
<u>Part II Other Information</u>	
Item 1. <u>Legal Proceedings.</u>	42
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	42
Item 3. <u>Defaults Upon Senior Securities.</u>	42
Item 4. <u>Submission of Matters to a Vote of Security Holders.</u>	42
Item 5. <u>Other Information.</u>	43
Item 6. <u>Exhibits and Reports on Form 8-K.</u>	43

Table of Contents**Part I Financial Information****Item 1. Financial Statements (unaudited)****MARCHEX, INC. AND SUBSIDIARIES**

Condensed Consolidated Balance Sheets

(unaudited)

	December 31,	September 30,
	2003	2004
	<u> </u>	<u> </u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,019,119	24,772,316
Accounts receivable, net	1,627,730	2,301,249
Other receivables	384	
Prepaid expenses	117,596	357,871
Income tax receivable	290,939	17,727
Deferred tax assets	263,193	513,404
Other current assets	24,190	46,202
	<u> </u>	<u> </u>
Total current assets	8,343,151	28,008,769
Property and equipment, net	994,793	1,279,962
Other assets	409,878	61,465
Goodwill	17,252,999	26,666,058
Identifiable intangible assets, net	6,701,791	6,487,815
	<u> </u>	<u> </u>
Total assets	\$ 33,702,612	62,504,069
	<u> </u>	<u> </u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,842,229	3,868,745
Accrued payroll and benefits	252,642	278,209
Accrued expenses and other current liabilities	1,031,850	930,283
Accrued facility relocation		59,498
Deferred revenue	848,958	1,755,738
Earn-out liability payable	3,525,995	377,547
	<u> </u>	<u> </u>
Total current liabilities	8,501,674	7,270,020
Deferred tax liabilities	1,829,687	658,043
Deferred revenue	38,993	23,617
Accrued facility relocation		50,578
Other non-current liabilities	2,274	38,183
Fair value of redemption obligation	55,250	
	<u> </u>	<u> </u>
Total liabilities	10,427,878	8,040,441
Series A redeemable convertible preferred stock	21,440,402	

Edgar Filing: MARCHEX INC - Form 10QSB

Commitments, contingencies, and subsequent events		
Stockholders' equity:		
Class A common stock	122,500	122,500
Class B common stock	15,675	134,216
Additional paid-in capital	6,716,734	60,146,934
Deferred stock-based compensation	(1,532,340)	(690,937)
Accumulated deficit	(3,488,237)	(5,249,085)
	<u> </u>	<u> </u>
Total stockholders' equity	1,834,332	54,463,628
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 33,702,612	62,504,069
	<u> </u>	<u> </u>

See accompanying notes to condensed consolidated financial statements.

Table of Contents**MARCHEX, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Operations**

(unaudited)

	Predecessor Period	Successor Periods			
	Period from January 1 to February 28, 2003	Period from January 17 (inception) to September 30, 2003	Nine months ended September 30, 2004	Quarter ended September 30, 2003	Quarter ended September 30, 2004
Revenue	\$ 3,071,055	12,431,493	28,682,924	5,359,274	12,215,835
Expenses:					
Service costs (1)	1,732,813	6,806,021	18,142,886	2,967,206	7,619,496
Sales and marketing (1)	365,043	1,592,722	3,196,996	723,753	1,156,314
Product development (1)	144,479	844,399	1,636,321	384,248	602,478
General and administrative (1)	234,667	1,816,522	2,613,932	659,178	1,072,505
Acquisition-related retention consideration (2)			374,858		119,198
Facility relocation			199,960		(30,499)
Stock-based compensation (3)	38,981	1,587,476	721,403	326,407	125,405
Amortization of intangible assets (4)		2,028,244	3,473,976	869,587	1,404,464
Total operating expenses	2,515,983	14,675,384	30,360,332	5,930,379	12,069,361
Income (loss) from operations	555,072	(2,243,891)	(1,677,408)	(571,105)	146,474
Other income (expense):					
Interest income	1,529	33,502	163,808	16,931	82,462
Interest expense			(3,728)		(1,915)
Adjustment to fair value of redemption obligation			55,250		
Other			3,644		
Total other income	1,529	33,502	218,974	16,931	80,547
Income (loss) before provision for income taxes	556,601	(2,210,389)	(1,458,434)	(554,174)	227,021
Income tax expense (benefit)	224,082	(783,231)	(118,016)	(196,368)	82,787
Net income (loss)	332,519	(1,427,158)	(1,340,418)	(357,806)	144,234
Accretion to redemption value of redeemable convertible preferred stock		911,620	420,430	407,265	
Net income (loss) applicable to common stockholders	\$ 332,519	(2,338,778)	(1,760,848)	(765,071)	144,234
Basic net income(loss) per share applicable to common stockholders		\$ (0.18)	\$ (0.08)	\$ (0.06)	\$ 0.01

Edgar Filing: MARCHEX INC - Form 10QSB

Diluted net income (loss) per share applicable to common stockholders	\$ (0.18)	\$ (0.08)	\$ (0.06)	\$ 0.01
Shares used to calculate basic net income (loss) per share	13,203,398	20,971,993	12,992,500	25,166,363
Shares used to calculate diluted net income (loss) per share	13,203,398	20,971,993	12,992,500	26,968,840

(1) Excludes acquisition-related retention consideration, stock-based compensation and amortization of intangible assets

(2) Components of acquisition-related retention consideration

Service costs		44,608		14,185
Sales and marketing		127,427		40,503
Product development		137,948		43,865
General and administrative		64,875		20,645

(3) Components of stock-based compensation

Service costs	190	39,158	8,550		2,250
Sales and marketing	715	316,574	124,161	87,720	7,573
Product development	37,710	164,070	47,230	38,348	12,653
General and administrative	366	1,067,674	541,462	200,339	