

MARCHEX INC
Form 10-Q
August 07, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2009

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

413 Pine Street, Suite 500

Seattle, Washington 98101

(Address of principal executive offices)

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

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 and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its Corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class	Outstanding at August 6, 2009
Class A common stock, par value \$.01 per share	10,869,216
Class B common stock, par value \$.01 per share	25,305,925

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MARCHEX, INC. AND SUBSIDIARIES**

Condensed Consolidated Balance Sheets

(unaudited)

	December 31, 2008	June 30, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 27,418,396	\$ 28,731,261
Trade accounts receivable, net	21,734,291	11,920,607
Prepaid expenses and other current assets	2,642,607	2,295,272
Refundable taxes	3,042,288	4,710,416
Deferred tax assets	1,088,872	952,076
Total current assets	55,926,454	48,609,632
Property and equipment, net	5,615,396	4,425,097
Deferred tax assets	56,784,228	55,328,727
Intangible and other assets, net	6,665,562	5,661,742
Goodwill	35,475,782	35,456,610
Intangible assets from acquisitions, net	9,802,365	6,332,777
Total assets	\$ 170,269,787	\$ 155,814,585
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 12,351,123	\$ 7,138,620
Accrued expenses and other current liabilities	6,331,709	4,187,790
Deferred revenue	2,255,906	2,027,410
Total current liabilities	20,938,738	13,353,820
Other non-current liabilities	23,297	9,700
Total liabilities	20,962,035	13,363,520
Stockholders equity:		
Class A common stock	112,217	111,317
Class B common stock	286,736	255,519
Treasury stock	(15,392,921)	(1,000,832)
Additional paid-in capital	299,925,762	281,550,297
Accumulated deficit	(135,624,042)	(138,465,236)
Total stockholders equity	149,307,752	142,451,065
Total liabilities and stockholders equity	\$ 170,269,787	\$ 155,814,585

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Operations

(unaudited)

	Six Months Ended June, 30		Three Months Ended June 30,	
	2008	2009	2008	2009
Revenue	\$ 74,406,214	\$ 47,652,022	\$ 37,363,887	\$ 21,081,073
Expenses:				
Service costs (1), (2)	36,301,616	22,886,210	17,414,301	11,024,516
Sales and marketing (1), (2)	14,867,783	11,271,267	7,896,035	3,682,352
Product development (1), (2)	8,439,573	7,600,517	4,252,469	3,446,317
General and administrative (1), (2)	10,033,984	8,057,735	5,074,875	3,987,195
Amortization of intangible assets from acquisitions (3)	7,713,637	3,469,551	3,661,275	1,334,585
Total operating expenses	77,356,593	53,285,280	38,298,955	23,474,965
Gain on sales and disposals of intangible assets, net	2,155,267	1,784,855	2,010,576	854,616
Income (loss) from operations	(795,112)	(3,848,403)	1,075,508	(1,539,276)
Other income (expense):				
Interest income	449,782	28,670	162,633	12,516
Interest and line of credit expense	(34,231)	(45,493)	(30,907)	(31,581)
Other	1,855	13,041	1,354	126
Total other income (expense)	417,406	(3,782)	133,080	(18,939)
Income (loss) before provision for income taxes	(377,706)	(3,852,185)	1,208,588	(1,558,215)
Income tax (benefit) expense	393,276	(1,010,991)	733,229	(390,058)
Net income (loss)	(770,982)	(2,841,194)	475,359	(1,168,157)
Convertible preferred stock dividends and discount on preferred stock redemption, net	(44,585)		(33,697)	
Net income (loss) applicable to common stockholders	\$ (726,397)	\$ (2,841,194)	\$ 509,056	\$ (1,168,157)
Basic and diluted net income (loss) per share applicable to Class A and Class B common stockholders	\$ (0.02)	\$ (0.09)	\$ 0.01	\$ (0.04)
Dividends paid per share	\$ 0.04	\$ 0.04	\$ 0.02	\$ 0.02
Shares used to calculate basic net income (loss) per share applicable to common stockholders				
Class A	10,968,282	10,899,547	10,959,216	10,869,216
Class B	26,153,567	23,094,703	25,621,394	22,454,956
Shares used to calculate diluted net income (loss) per share applicable to common stockholders				
Class A	10,968,282	10,899,547	10,959,216	10,869,216
Class B	37,130,260	33,994,250	37,504,686	33,324,172
(1) Excludes amortization of intangible assets from acquisitions				
(2) Includes stock-based compensation as follows:				
Service costs	\$ 225,658	\$ 197,056	\$ 86,087	\$ 102,546

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Sales and marketing	856,714	982,509	326,004	524,655
Product development	806,998	298,432	396,289	115,027
General and administrative	3,847,338	3,512,111	1,860,856	1,795,853
Total	\$ 5,736,708	\$ 4,990,108	\$ 2,669,236	\$ 2,538,081

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

Service costs	\$ 6,558,715	\$ 3,425,107	\$ 3,179,686	\$ 1,323,474
Sales and marketing	954,444		406,111	
General and administrative	200,478	44,444	75,478	11,111
Total	\$ 7,713,637	\$ 3,469,551	\$ 3,661,275	\$ 1,334,585

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows

(unaudited)

	Six Months Ended	
	June 30,	
	2008	2009
Cash flows from operating activities:		
Net loss	\$ (770,982)	\$ (2,841,194)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization and depreciation	12,937,704	6,690,386
Facility relocation costs	2,972	
Gain on sales of fixed assets, net	(1,855)	(565)
Gain on sales and disposals of intangible assets, net	(2,155,267)	(1,784,855)
Allowance for doubtful accounts and merchant advertiser credits	1,578,076	382,486
Stock-based compensation	5,736,708	4,990,108
Deferred income taxes	(2,294,219)	1,592,297
Excess tax benefit related to stock options	(53,541)	(49,477)
Change in certain assets and liabilities, net of acquisition:		
Trade accounts receivable, net	(5,678,151)	9,431,197
Refundable taxes	315,299	(2,644,998)
Prepaid expenses, other current assets and restricted cash	(1,296,458)	90,186
Accounts payable	1,962,988	(5,159,858)
Accrued expenses and other current liabilities	1,228,830	(2,127,210)