MARCHEX INC
Form DEF 14A
April 01, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under § 240.14a-12

MARCHEX, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

520 Pike Street, Suite 2000

Seattle, Washington 98101

Dear holders of Class A common stock and Class B common stock of Marchex, Inc. (Marchex or the Company):

You are cordially invited to attend the annual meeting of stockholders of Marchex to be held at the Washington Athletic Club, 1325 6th Avenue, Seattle, Washington 98101 on Friday, May 7, 2015, at 10:00 a.m. local time. The annual meeting is being held for the following purposes:

(1) To elect seven (7) individuals to serve on the Company s Board of Directors for the ensuing year and until their successors are elected;

(2) To ratify the appointment of KPMG LLP (KPMG) as the Company s independent registered public accounting firm for the current fiscal year; and

(3) To transact any other business that may properly come before the annual meeting and any adjournment or postponement thereof.

These items are fully discussed in the following pages, which are made part of this notice. Our Board of Directors recommends a vote FOR items 1 and 2. Only holders of record of the Company s Class A common stock and Class B common stock on the books of the Company at the close of business on March 18, 2015, are entitled to vote at the annual meeting. A list of stockholders entitled to vote will be available for inspection by any stockholder for any purpose germane to the meeting at the offices of Marchex, Inc., 520 Pike Street, Suite 2000, Seattle, Washington, 98101, during ordinary business hours for the 10 days prior to the annual meeting.

Whether or not you plan to attend, please promptly complete, sign, date and return your proxy card in the enclosed envelope, so that we may vote your shares in accordance with your wishes and so that enough shares are represented to allow us to conduct the business of the annual meeting. If you hold shares in street name , you may be able to vote over the internet or by telephone by following the instructions on your proxy card. Mailing your proxy(ies) or voting over the internet or by telephone does not affect your right to vote in person if you attend the annual meeting. You may still vote in person if you are a stockholder entitled to vote and you attend the meeting, even if you have returned your proxy, provided that you affirmatively indicate your intention to vote your shares in person. Please note, however, that if a brokerage firm or bank holds your shares of record and you wish to vote at the meeting, you must obtain from the record holder a valid legal proxy issued in your name.

A copy of Marchex s annual report to stockholders for the fiscal year ended December 31, 2014 is enclosed with this notice.

By order of the Board of Directors,
Peter Christothoulou

Chief Executive Officer

April 1, 2015

Your vote is very important. Even if you plan to attend the meeting,

PLEASE SIGN, DATE AND RETURN THE ENCLOSED PROXY PROMPTLY.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 7, 2015: Our proxy statement is attached. Financial and other information concerning Marchex is contained in our annual report to stockholders for the fiscal year ended December 31, 2014. A complete set of proxy materials relating to our annual meeting is available on the internet. These materials, consisting of the notice of annual meeting, proxy statement, proxy card and annual report to stockholders, may be viewed at **http://www.RRDEZProxy.com/2015/Marchex.**

PROXY STATEMENT

FOR THE

ANNUAL MEETING OF STOCKHOLDERS

520 Pike Street, Suite 2000

Seattle, Washington 98101

INFORMATION ABOUT SOLICITATION AND VOTING

General

The enclosed proxy is solicited by the Board of Directors of Marchex for use in voting at the annual meeting of stockholders to be held at 10:00 a.m., local time, on Friday, May 7, 2015, at the Washington Athletic Club located at 1325 6th Avenue, Seattle, Washington 98101, and any postponement or adjournment of that meeting. The Company s telephone number is (206) 331-3300. The purpose of the annual meeting is to consider and vote upon the proposals outlined in this proxy statement and the attached notice.

Marchex s Class B common stock is traded on the NASDAQ Global Select Market.

These proxy solicitation materials were mailed on or about April 1, 2015, together with the Company s annual report, to all holders of Class A common stock and Class B common stock entitled to vote at the meeting.

Record Date and Outstanding Shares

Only holders of record of shares of Class A common stock and Class B common stock on the books of the Company at the close of business on the record date, March 18, 2015, will be entitled to vote at the annual meeting. As of the close of business on the record date, there were 5,232,636 shares of Class A common stock outstanding and 36,778,379 shares of Class B common stock outstanding.

Proxies

The Board of Directors has selected Michael Arends, Chief Financial Officer, and Ethan Caldwell, General Counsel and Secretary, as proxies for the annual meeting. By submitting your proxy, you will authorize Mr. Arends and Mr. Caldwell to represent you and vote your shares at the meeting in accordance with your instructions. They may also vote your shares to adjourn the meeting and will be authorized to vote your shares at any adjournments or postponements of the meeting.

Meeting Attendance and Admission

You are entitled to attend the annual meeting only if you are a stockholder of record or a beneficial owner as of March 18, 2015. Since seating is limited, admission to the meeting will be on a first-come, first-served basis. You should be prepared to present a photo identification and proof of your stockholder status or beneficial ownership prior to being admitted to the annual meeting. If you are the stockholder of record, you will need to provide proof of status in the form of your proxy card. If you hold your shares in street name, you must provide proof of beneficial ownership on the record date, such as a brokerage account statement showing that you owned Marchex stock as of the record date, a copy of the voting instruction card provided by your broker, bank or other nominee, or other similar evidence of ownership as of the record date. If you do not present photo identification or comply with the other procedures outlined above upon request, you will not be admitted to the annual meeting.

Voting and Solicitation

Each stockholder entitled to vote at the meeting may vote in person at the annual meeting or by proxy. If you are the record holder of your shares and attend the meeting in person, you may deliver your completed proxy card to us at the meeting. If your shares are held in street name, please check your proxy card or contact your broker or nominee to determine whether you will be able to vote by telephone or on the internet. Internet and telephone voting procedures are designed to authenticate the stockholder s identity and to allow the stockholder to vote his or her shares and confirm that his or her voting instructions have been properly recorded. If you wish to vote in person at the annual meeting, you must obtain a legal proxy from the bank or brokerage firm that holds your shares.

When proxies are properly dated, executed and returned, the shares they represent will be voted at the annual meeting in accordance with the instructions of the stockholder. If no specific instructions are given in a proxy, the shares will be voted FOR the election of the nominees for director set forth herein and FOR ratification of the appointment of accountants. In addition, if other matters come before the annual meeting, the persons named in the accompanying form of proxy will vote in accordance with their best judgment with respect to such matters. Each holder of shares of Class A common stock is entitled to 25 votes for each share of Class A common stock held as of the record date, and each holder of shares of Class B common stock is entitled to 1 vote for each share of Class B common stock held as of the record date. The Class A common stock and Class B common stock will vote together as a single class on all matters described in these proxy materials for which your vote is being solicited.

The Company is paying all costs of the solicitation of proxies, including the expenses of printing and mailing to its stockholders the proxy, this proxy statement and the accompanying notice of annual meeting of stockholders. The Company will also reimburse brokerage houses and other custodians, nominees and fiduciaries for their expenses, in accordance with the regulations of the Securities and Exchange Commission (SEC), in sending proxies and proxy materials to the beneficial owners of the voting stock. Proxies may be solicited by the Company s officers, directors and regular employees, without compensation, personally or by telephone or facsimile.

Required Vote

A quorum is required for the transaction of business during the annual meeting. A quorum is present when a majority of stockholder votes are present in person or by proxy. Shares that are voted FOR , AGAINST or WITHHELD on a matter are treated as being present at the meeting for purposes of establishing a quorum and are also treated as votes cast by the Class A common stock and Class B common stock present in person or represented by proxy at the annual meeting and entitled to vote on the subject matter.

The candidates for election as directors at the annual meeting who receive the highest number of affirmative votes present or represented by proxy and entitled to vote at the annual meeting, will be elected. The ratification of the independent registered public accounting firm for the Company for the current year and approval of the compensation paid to our named executive officers require the affirmative vote of a majority of the shares of the Company s Class A common stock and Class B common stock present or represented by proxy and entitled to vote at the annual meeting.

Revocability of Proxies

A proxy given pursuant to this solicitation may be revoked at any time before its use by delivering a written revocation to the Secretary of the Company, delivering a duly executed proxy bearing a later date or attending and voting in person at the annual meeting. If you hold your shares through a broker or custodian, you will need to contact them to revoke your proxy.

Abstentions; Broker Non-Votes

The Company will count abstentions for purposes of determining both (i) the presence or absence of a quorum for the transaction of business, and (ii) the total number of votes cast with respect to a proposal (other than the election of directors). Broker non-votes will be counted for purposes of determining the presence or absence of a quorum for the transaction of business. Broker non-votes will not be counted for purposes of determining the number of votes cast with respect to a proposal.

Generally, broker non-votes occur when shares held by a broker, bank, or other nominee in street name for a beneficial owner are not voted with respect to a particular proposal because the broker, bank, or other nominee (i) has not received voting instructions from the beneficial owner and (ii) lacks discretionary voting power to vote those shares with respect to that particular proposal. A broker is entitled to vote shares held for a beneficial owner on routine matters, such as the ratification of the appointment of KPMG LLP as our independent registered public accounting firm (Proposal Two), without instructions from the beneficial owner of those shares. On the other hand, absent instructions from the beneficial owner of such shares, a broker is not entitled to vote shares held for a beneficial owner on certain non-routine matters, such as the election of our directors (Proposal One). If you hold your shares in street name, it is critical that you cast your vote if you want it to count in the election of directors (Proposal One).

For Proposal One (election of directors) which requires a plurality of the votes cast, abstentions and broker non-votes are not considered votes cast and will have no effect on the outcome of the vote on these proposals. For Proposal Two (the ratification of the appointment of the independent registered public accounting firm) which requires the affirmative approval of a majority of the votes present or represented and entitled to vote, broker non-votes will have no effect on the number of votes cast, but abstentions will have the same effect as a vote against Proposal Two because they will be counted as a vote cast with respect to the proposals but not counted as a vote for the proposals.

Voting Results We will announce preliminary voting results at the annual meeting. We will report final results in a Form 8-K report filed with the SEC.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

To the Company s knowledge, the following table sets forth information regarding the beneficial ownership of our Class A common stock and Class B common stock as of March 18, 2015 by:

- each person (or group of affiliated persons) who is known by us to own beneficially more than 5% of the outstanding shares of our Class A common stock or Class B common stock;
- each of our directors and nominees for director;
- each of our executive officers listed in the Summary Compensation Table (NEOs); and
- all of our directors, nominees for director and executive officers as a group.

Percentage of beneficial ownership is based on 5,232,636 shares of our Class A common stock and 36,778,379 shares of our Class B common stock outstanding as of March 18, 2015. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options or restricted stock units held by that person that are currently exercisable or exercisable or issuable upon vesting within 60 days of March 18, 2015, are deemed outstanding. These shares are not, however, deemed outstanding for the purposes of computing the percentage ownership of any other person. Except as otherwise noted below, the address for each beneficial owner listed below is c/o Marchex, Inc., 520 Pike Street, Suite 2000, Seattle, Washington 98101.

	Shares Beneficially Owned				
	Class A Common Stock		Class B Common Stock		% Total Voting
Name and, as appropriate, Address of Beneficial Owner	**Shares**	**%**	**Shares**	**%**	**Power[(1)]**
5% Security Holders					
Archon Capital Management LLC[(2)] 1301 Fifth Avenue, Suite 3008 Seattle, WA 98101			2,196,186	6.0%	1.3%
BlackRock, Inc.[(3)] 55 East 52nd Street New York, NY 10022			2,197,511	6.0%	1.3%
Named Executive Officers and Directors					
Michael Arends[(4)]			943,712	2.5%	*
Ethan Caldwell[(5)]	395,209	7.6%	779,471	2.1%	6.1%
Peter Christothoulou[(6)]	176,500	3.3%	1,228,068	3.3%	2.9%
Dennis Cline[(7)]			153,800	*	*
Anne Devereux-Mills[(8)]			131,900	*	*
Nicolas J. Hanauer[(9)]			2,566,250	6.9%	1.4%
Russell C. Horowitz[(10)]	4,660,927	89.1%	888,407	2.4%	69.7%
Clark Kokich[(11)]			430,265	1.2%	*
Michael Miller[(12)]			121,438	*	*
Ian Morris[(13)]					
M. Wayne Wisehart[(14)]			158,000	*	*
All directors and executive officers as a group (11 persons)[(15)]	5,232,636	100.0%	7,401,311	18.6%	80.7%

Except as indicated in the footnotes below and except as subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

* Beneficial ownership or total voting power, as the case may be, representing less than one percent.

1. Percentage of voting power represents voting power with respect to shares of our Class A common stock and Class B common stock, as a single class. Each holder of Class A common stock shall be entitled to 25

votes per share of Class A common stock and each holder of Class B common stock shall be entitled to 1 vote per share of Class B common stock on all matters submitted to a vote of stockholders, except as may otherwise be required by law. The Class A common stock is convertible at any time by the holder into shares of Class B common stock on a share-for-share basis.

2. Based on the most recently available Schedule 13G/A filed with the SEC on February 17, 2015 by Archon Capital Management LLC (Archon), an investment advisor on its behalf and on behalf of Constantinos Christofilis, whose address is 1301 Fifth Avenue, Suite 3008, Seattle, Washington 98101, an individual and managing member of Strategos Master Fund, L.P., a limited partnership, whose address is c/o Maples & Calder, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Archon and Constantinos Christofilis each report beneficial ownership of 2,196,186 shares of our Class B common stock, and shared voting and dispositive power as to 2,196,186 shares of our Class B common stock. Strategos Master Fund, L.P. reports beneficial ownership of 1,236,686 shares of our Class B common stock and shared voting and dispositive power as to 1,236,686 shares of our Class B common stock.

3. Based on the most recently available Schedule 13G filed with the SEC on February 2, 2015 by BlackRock, Inc. (BlackRock), a parent holding company/control person, on its behalf and for the benefit of the following BlackRock direct and/or indirect subsidiaries: BlackRock Advisors, LLC, BlackRock Investment Management, LLC, BlackRock Asset Management Canada Limited, BlackRock Fund Advisors, Blackrock International Limited, Blackrock Japan Co. Ltd., and BlackRock Institutional Trust Company, N.A. (collectively, the BlackRock Subsidiaries). BlackRock reports beneficial ownership of 2,197,511 shares of our Class B common stock, with sole voting power of 2,054,865 shares of our Class B common stock and sole dispositive power of 2,197,511shares of our Class B common stock. BlackRock reports that the BlackRock Subsidiaries have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of our Class B common stock, and that no one of the BlackRock Subsidiaries has an interest greater than five percent (5%) of our total outstanding common shares.

4. Includes: (1) 542,858 shares of our Class B common stock subject to options that are currently exercisable or exercisable within 60 days of March 18, 2015; (3) 10,500 shares of our Class B common stock held by the Nicole Marie Arends 2003 Trust for the benefit of Nicole Marie Arends, the daughter of Mr. Arends, for which shares Mr. Arends disclaims beneficial ownership; (4) 18,100 shares of Class B common stock held in an Individual Retirement Account for the benefit of Mr. Arends; and (5) 6,500 shares of Class B common stock held in an Individual Retirement Account for the benefit of Diana Arends, Mr. Arends wife.

5. Includes: (1) 95,375 shares of restricted stock subject to vesting; and (2) 385,906 shares of Class B common stock subject to options that are currently exercisable or exercisable within 60 days of March 18, 2015.

6. Includes: (1) 150,211 shares of restricted stock subject to vesting; (2) 724,786 shares of Class B common stock subject to options that are currently exercisable or exercisable within 60 days of March 18, 2015; and (3) approximately 60,000 shares which have been pledged by Mr. Christothoulou to a third party as security for a loan.

7. Includes: (1) 16,200 shares of restricted stock subject to vesting; (2) 28,500 shares of our Class B common stock held by DMC Investments, LLC, a limited liability company of which Mr. Cline is the managing member; (3) 15,000 shares of Class B common stock subject to options that are currently exercisable or exercisable within 60 days of March 18, 2015; and (4) 17,500 shares in the aggregate of our Class B common stock held by four different trusts for the benefit of his children, for which shares Mr. Cline disclaims beneficial ownership.

8. Includes: (1) 17,100 shares of restricted stock subject to vesting; and (2) 40,000 shares of Class B common stock subject to options that are currently exercisable or exercisable within 60 days of March 18, 2015.

9. Includes: (1) 13,750 shares of restricted stock subject to vesting; and (2) 300,000 shares of Class B common stock subject to options that are currently exercisable or exercisable within 60 days of March 18, 2015.

10. Includes: (1) 4,660,927 shares of our Class A common stock held by MARRCH Investments, LLC; (2) 114,199 shares of restricted stock subject to vesting; (3) 680,722 shares of our Class B common stock subject to options that are currently exercisable or exercisable within 60 days of March 18, 2015; (4) 5,000 shares of Class B common stock held in an Individual Retirement Account for the benefit of Mr. Horowitz; (5) 500,000 shares of Class A common stock which are pledged as security by MARRCH Investments, LLC

in connection with a brokerage investment account agreement. Mr. Horowitz is the managing member of MARRCH Investments, LLC and, as such, may be deemed to exercise voting and investment power over the shares held by all of these entities.

11. Includes: (1) 150,000 shares of restricted stock subject to vesting; (2) 132,500 shares of Class B common stock subject to options that are currently exercisable or exercisable within 60 days of March 18, 2015, and (3) 12,400 shares of Class B common stock held in an Individual Retirement Account for the benefit of Mr. Kokich.
12. Includes (1) 24,875 shares of restricted stock subject to vesting; and (2) 89,063 shares of Class B common stock subject to options that are currently exercisable or exercisable within 60 days of March 18, 2015; and (3) 7,500 shares of our Class B common stock issuable upon vesting of restricted stock units within 60 days of March 18, 2015.
13. Holds 146,215 shares of Class B common stock subject to options that are not exercisable within 60 days of March 18, 2015.
14. Includes (1) 17,850 shares of restricted stock subject to vesting; and (2) 40,000 shares of Class B common stock subject to options that are currently exercisable or exercisable within 60 days of March 18, 2015.
15. Includes an aggregate of: (1) 5,232,636 shares of our Class A common stock; (2) 4,442,976 shares of our Class B common stock (including 28,000 shares for which beneficial ownership has been disclaimed); (3) 2,950,835 shares of our Class B common stock subject to options that are currently exercisable or exercisable within 60 days of March 18, 2015; and (4) 7,500 shares of our Class B common stock issuable upon vesting of restricted stock units within 60 days of March 18, 2015.

PROPOSAL ONE ELECTION OF DIRECTORS

(Item 1 on Proxy Card)

The Board of Directors currently consists of seven (7) individuals, all of whom have been nominated for election at the annual meeting. Directors are to be elected to hold office until the next Annual Meeting of Stockholders and until their respective successors have been elected and qualified. The names and the respective ages of the seven (7) nominees as of March 18, 2015 are set forth below:

Name	Age	Position(s)	Director Since
Dennis Cline(1)(2)(3)	54	Director	May 2003
Anne Devereux-Mills(1)(2)(3)	53	Director	October 2006
Nicolas Hanauer(2)	55	Vice Chairman of the Board of Directors	October 2007
Russell C. Horowitz	48	Executive Director of the Board of Directors	January 2003
Clark Kokich	63	Executive Chairman of the Board of Directors	February 2015
Ian Morris	46	Director	February 2015
M. Wayne Wisehart(1)(3)	69	Director	November 2008

(1) Member of the Audit Committee.
(2) Member of the Nominating and Governance Committee.
(3) Member of the Compensation Committee.

Set forth below is a description of the business experience of each current director, including a discussion of the specific experience, qualifications, attributes and skills that led our Board of Directors to conclude that those individuals should serve as our directors.

Dennis Cline. Mr. Cline has served as a member of our Board of Directors since May 2003. Mr. Cline is also currently an independent director on the board of TraceSecurity, a provider of cloud-based security solutions. Mr. Cline previously served as Chief Executive Officer and Executive Chairman of netForensics, a provider of security event information management. Prior to joining netForensics as its Chief Executive Officer, Mr. Cline was Managing Partner of DMC Investments, a firm he founded in 2000, which provides capital and consulting services to technology companies. From 1998 to 2000, Mr. Cline was the Chief Executive Officer of DirectWeb, a provider of computer hardware and Internet access for consumers. Prior to DirectWeb, Mr. Cline was a senior executive at Network Associates, a provider of computer security solutions. Mr. Cline received his J.D. from Rutgers School of Law and his B.A. from Rutgers University. Mr. Cline brings extensive sales and broad management expertise to the board.

Anne Devereux-Mills. Ms. Devereux-Mills has served as a member of our Board of Directors since October 2006. With over 25 years of experience in the marketing and advertising industries, Ms. Devereux-Mills now serves as the Executive Director of the Healthy Body Image Program at Stanford University. She is also the Chief Strategy Officer of Thrive On, a mobile technology provider for mental health and wellness programs. Prior to these current roles, Ms. Devereux-Mills served as Chairman of LLNS, a division of Omnicom Group Inc. (NYSE: OMC) from May 2006 to April 2012 and served as Chief Executive Officer of LLNS from May 2006 to September 2010. LLNS is a leading healthcare communications agency. Prior to joining LLNS, from February 2003 to May 2006, Ms. Devereux-Mills was the Chief Integration Officer as well as Managing Director of all health-related assignments within BBDO New York, an advertising agency. Before joining BBDO New York, from April 2002 to February 2003, Ms. Devereux-Mills was President of Dugan Valva Contess, an independent communications agency. From January 1996 to April 2002, Ms. Devereux-Mills was President and Founder of Consumer Healthworks which then became Merkley Newman Harty Healthworks, one of the first agencies to specialize in direct-to-consumer advertising for healthcare brands. Ms. Devereux-Mills received a B.A. degree from Wellesley College. Ms. Devereux-Mills brings extensive marketing and advertising expertise to the board.

Nicolas Hanauer. Mr. Hanauer has served as Vice Chairman of our Board of Directors since October 2007. Mr. Hanauer is also Chairman of Pacific Coast Feather Company, a Seattle-based manufacturer of pillows and bedding, and a partner at Second Avenue Partners, a Seattle-based venture capital firm he co-founded in 2000. Mr. Hanauer founded aQuantive, Inc. (formerly Avenue A Media, Inc.), a leading global digital marketing company, in 1997 and served as its Chief Executive Officer from June 1998 to September 1999 and as Chairman of the Board from June 1998 until its acquisition by Microsoft in August 2007. In 1998, Mr. Hanauer co-founded Gear.com, an online sporting goods company, and served as its chairman until its merger with Overstock.com in 2001. In 1995, Mr. Hanauer became a founding investor in Amazon.com and served as a board advisor until 2000. Mr. Hanauer began his professional career at the Pacific Coast Feather Company where from 1990 to 2004 he held a number of executive positions, including Chief Executive Officer and Co-Chairman. Mr. Hanauer received a B.A. degree in Philosophy from the University of Washington. Mr. Hanauer brings extensive operational and industry expertise to the board as well as strategic planning.

Russell C. Horowitz. Mr. Horowitz is a founder of our Company and has served as the Executive Director of our Board of Directors since February 2015. Previous to that, Mr. Horowitz served as the Chairman of our Board of Directors, Chief Executive Officer and Treasurer since our inception in January 2003. Mr. Horowitz was previously a founder of Go2Net, a provider of online services to merchants and consumers, including merchant Web hosting, online payment authorization technology, and Web search and directory services. He served as its Chairman and Chief Executive Officer from its inception in February 1996 until its merger with InfoSpace in October 2000, at which time Mr. Horowitz served as the Vice Chairman and President of the combined company through the merger integration process. Additionally, Mr. Horowitz served as the Chief Financial Officer of Go2Net from its inception until May 2000. Prior to Go2Net, Mr. Horowitz served as the Chief Executive Officer and a director of Xanthus Management, LLC, the general partner of Xanthus Capital, a merchant bank focused on investments in early-stage companies, and was a founder and Chief Financial Officer of Active Apparel Group, now Everlast Worldwide. Mr. Horowitz received a B.A. in Economics from Columbia College of Columbia University. Mr. Horowitz brings historic knowledge and continuity together with extensive operational and industry expertise to the board.

Clark Kokich. Mr. Kokich has served as our Executive Chairman since February of 2015 and as our Chief Strategy Officer from September 2013 through February 2015. For the prior 14 years Mr. Kokich was an executive at Razorfish, a leading Seattle-based global consultancy in digital marketing and technology, serving most recently as chairman of the board. Prior to joining Razorfish, he was CEO of Calla Bay, Inc.; prior to that he was director of sales and marketing for a division of McCaw Cellular Communications. In his early career he spent 12 years in traditional advertising, including the position of executive vice president/managing director for Cole & Weber, a division of Ogilvy & Mather. He is a director of Acxiom, a marketing technology and services company, Rocket Fuel, Inc., an advertising technology company, and EMP (Experience Music Project), a museum in Seattle, and he serves on the board of trustees for Childhaven, a Seattle children s charity. Mr. Kokich holds a bachelor s degree in finance from the University of Oregon. Mr. Kokich brings extensive digital marketing and technology expertise to the board along with years of management experience.

Ian Morris. Mr. Morris has served as a member of our Board of Directors since February of 2015. Mr. Morris was previously the President of Market Leader, Inc., a wholly owned subsidiary of Trulia, from August 2013 to September 2014. Prior to Trulia s acquisition of Market Leader, Mr. Morris served as Market Leader s Chief Executive Officer since June 2003 and a director since April 2004. Mr. Morris joined Market Leader in June 2002 as Executive Vice President of Marketing and Business Development and served as Market Leader s Chief Operating Officer from September 2002 to May 2003. From 1997 to 2002, Mr. Morris served in a variety of positions for MSN HomeAdvisor, the online real estate business of Microsoft Corporation, a software and technology company, including Director of Marketing, Group Manager, and General Manager. Mr. Morris holds a Master of Business Administration degree from Harvard Business School and a Bachelor of Science degree from Bryant College. Mr. Morris brings experience in business and technology innovation, as well as, investment strategy and strategic planning to the board.

M. Wayne Wisehart. Mr. Wisehart has served as a member of our Board of Directors since November 2008. From February 2010 to November 2010, Mr. Wisehart served as interim Chief Financial Officer for All Star

Directories, a publisher of online and career school directories. Mr. Wisehart previously served as the Chief Financial Officer of aQuantive, Inc. (formerly Avenue A Media, Inc.), a leading global digital marketing company, which was acquired by Microsoft in August 2007. Prior to aQuantive, Mr. Wisehart served as Chief Financial Officer of Western Wireless Corporation, a cellular phone service provider, which was acquired by Alltel in August 2005. Mr. Wisehart also served as the Chief Financial Officer from 2000 to 2002 of iNNERHOST, Inc., a Web hosting service s company, as President and Chief Executive Officer from 1999 to 2000 of TeleDirect International Inc., a company that provide customer interaction systems, and as the President and Chief Executive Officer from 1997 to 1998 of Price Communications Wireless. Mr. Wisehart also serves on the Board of Directors of EarthLink, Inc. and Centri Technology, Inc. Mr. Wisehart received a B.S. degree in Business from the University of Missouri-St. Louis. Mr. Wisehart brings extensive financial and accounting expertise to the board.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION OF THE NOMINEES LISTED ABOVE TO THE BOARD OF DIRECTORS.

CORPORATE GOVERNANCE

Board Independence

The Board of Directors determined that, other than Mr. Horowitz and Mr. Kokich, each of the members of the board is an independent director in accordance with NASDAQ listing standards.

Committees and Meeting Attendance

The Board of Directors has an Audit Committee, a Compensation Committee and a Nominating and Governance Committee. Each of these committees operates under a written charter adopted by the board. Copies of these charters are available on our website at *www.marchex.com.* The Board of Directors held five meetings and took action by written consent on nine occasions during the fiscal year ended December 31, 2014. Each of the standing committees of the board held the number of meetings indicated below. During the last fiscal year, each of our directors attended at least 75% of the total number of meetings of the board and all of the committees of the board on which such director served held during that period. Directors are encouraged to attend our annual meetings of stockholders. All of our directors attended last year s annual meeting.

The following table sets forth the three standing committees of the board, the members of each committee, the number of meetings held by each committee and committee action taken by written consent during the 2014 fiscal period:

Name of Director	Audit	Compensation	Nominating and Governance
Dennis Cline	Member	Member	Member
Anne Devereux-Mills	Member	Chair	Member
Nicolas Hanauer			Chair
M. Wayne Wisehart	Chair	Member	
Number of Meetings	8	4	4
Action by Written Consent	3	5	0

Audit Committee

The Audit Committee is currently comprised of Messrs. Cline and Wisehart (Chair) and Ms. Devereux-Mills. Each of the members of the Audit Committee is independent for purposes of the NASDAQ listing standards as they apply to Audit Committee members. Messrs. Cline and Wisehart are Audit Committee financial experts, as defined in the rules of the Securities and Exchange Commission. The Audit Committee operates under a charter that is available on our website at *www.marchex.com*. The functions of the Audit Committee include reviewing, with the Company s independent registered public accounting firm, the scope and timing of the independent registered public accounting firm s services, the independent registered public accounting firm s report on the Company s consolidated financial statements and internal control over financial reporting following completion of the Company s audits, and the Company s internal accounting and financial control policies and procedures, and making annual recommendations to the Board of Directors for the appointment of independent registered public accounting firm for the ensuing year. The Audit Committee held eight meetings and took action by written consent on three occasions during the fiscal year ended December 31, 2014. Additional information regarding the Audit Committee is set forth in the Report of the Audit Committee immediately following Proposal Two.

Compensation Committee

The Compensation Committee is currently comprised of Messrs. Cline and Wisehart and Ms. Devereux-Mills (Chair). Each of the members of the Compensation Committee is independent for purposes of the

NASDAQ listing standards. The Compensation Committee operates under a charter that is available on our website at *www.marchex.com*. The Compensation Committee held four meetings and took action by written consent on five occasions during the fiscal year ended December 31, 2014.

The purpose of the Compensation Committee is to assist the Board of Directors in carrying out its responsibilities with respect to: (i) overseeing the Company s compensation policies and practices; (ii) reviewing and approving annual compensation and compensation procedures for the Company s executive officers; and (iii) overseeing and recommending director compensation to the Board of Directors. More specifically, the Compensation Committee s responsibilities include overseeing the Company s general compensation structure, policies and programs, and assessing whether the Company s compensation structure establishes appropriate incentives for management and employees; making recommendations to the Board of Directors with respect to, and administering, the Company s incentive compensation and equity-based compensation plans, including the Company s stock option plan and employee stock purchase plan; reviewing and approving compensation procedures for the Company s executive officers; recommending to the independent directors for approval the compensation of the Chief Executive Officer based on relevant corporate goals and objectives and the Board of Directors performance evaluation of the Chief Executive Officer; and reviewing and recommending to the Board of Directors for approval the compensation of executive officers other than the Chief Executive Officer; reviewing and recommending to the Board of Directors employment, retention, restricted stock and severance agreements for executive officers, including change of control provisions, plans or agreements; reviewing the compensation of directors for service on the Board of Directors and its committees. Regarding most compensation matters, including executive and director compensation, the Company s management provides recommendations to the Compensation Committee. The Compensation Committee has delegated its authority to grant equity and other awards under the Company s stock incentive plan to eligible employees who are not executive officers to the Stock Option Grant Subcommittee within certain pre-approved limits. The Stock Option Grant Subcommittee currently consists of Messrs. Arends, Caldwell and Christothoulou and such committee regularly reports any grants made to the Compensation Committee.

Nominating and Governance Committee

The Nominating and Governance Committee is currently comprised of Messrs. Cline and Hanauer (Chair) and Ms. Devereux-Mills. Each of the members of the Nominating and Governance Committee is independent for purposes of the NASDAQ listing standards. The Nominating and Governance Committee operates under a charter that is available on our website at *www.marchex.com*. The Nominating and Governance Committee identifies individuals qualified to become board members, recommends to the board those persons to be nominated for election to our board at the annual meeting of stockholders, develops and recommends to the board a set of corporate governance principles applicable to the Company and oversees the annual evaluation of the board. The Nominating and Governance Committee held four meetings during the fiscal year ended December 31, 2014.

Nomination of Directors

The Nominating and Governance Committee may use third party executive search firms to help identify prospective director nominees. The Nominating and Governance Committee has not established specific minimum age, education, experience, or skill requirements for potential members, but, in general, expects that qualified candidates will have high-level managerial experience in a relatively complex organization or be accustomed to dealing with complex problems, and will be able to represent the interests of the stockholders as a whole rather than special interest groups or constituencies. The Nominating and Governance Committee considers each candidate s character, integrity, judgment, skills, background, experience of particular relevance to the Company, ability to work well with others and time available to devote to board activities, among other factors. The Nominating and Governance Committee also considers the interplay of a candidate s background and expertise with that of other board members, and the extent to which a candidate may be a desirable addition to any committee of the board. The Nominating and Governance Committee uses the same process for evaluating all nominees, regardless of the original source of the nomination.

The Nominating and Governance Committee also focuses on issues of diversity, such as diversity of gender, race and national origin, education, professional experience and differences in viewpoints and skills. The Nominating and Governance Committee does not assign specific weights to particular criteria. Rather, the Board of Directors believes that the backgrounds and qualifications of the directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow the board to fulfill its responsibilities. The Nominating and Governance Committee believes that it is essential that the board members represent diverse viewpoints. The Nominating and Governance Committee s goal is to assemble a board that brings to the Company a variety of perspectives and skills derived from high quality business and professional experience.

Our evaluations of potential directors include, among other things, an assessment of a candidate s background and credentials, personal interviews, and discussions with appropriate references. Once we have selected appropriate candidates, we present them to the full board for election if a vacancy occurs or is created by an increase in the size of the board during the course of the year, or for nomination if the director is to be first elected by stockholders.

Marchex stockholders may recommend individuals to the Nominating and Governance Committee for consideration as potential director candidates by submitting their names and appropriate supporting background and biographical information to: Marchex, Inc., 520 Pike Street, Suite 2000, Seattle, Washington 98101, Attention: General Counsel. The recommendation must include any relevant information, including the candidate s name, home and business contact information, detailed biographical data and qualifications, and information regarding any relationships between the candidate and the Company within the last three years. Acceptance of a recommendation does not mean that the committee will ultimately nominate the recommended candidate.

Code of Conduct and Code of Ethics

The Company has adopted a code of conduct applicable to each of the Company s officers, directors and employees, and a code of ethics applicable to the Company s Chief Executive Officer, Chief Financial Officer and the Company s senior financial officers, as contemplated by Section 406 of the Sarbanes-Oxley Act of 2002 and both codes are available on our website at *www.marchex.com*.

Corporate Governance Guidelines

The Board of Directors has adopted corporate governance guidelines to ensure effective corporate governance which are available on our website at *www.marchex.com*.

Board Leadership Structure

The Board of Directors does not have a specific policy regarding the separation of the roles of Chief Executive Officer and Chairman of the Board as the board believes it is in the best interest of the Company to make that determination based on the position and direction of the Company and the membership of the board. The Board of Directors is responsible for the control and direction of the Company.

The Board of Directors is comprised of independent members, as independence is defined under the NASDAQ Listing Standards, along with our Executive Chairman and our Executive Director. The leadership structure of the Company has varied over time as the demands of the business, the composition of the Board, and the ranks of our senior executives have changed, and the Board has utilized this flexibility to establish the most appropriate structure at any given time. From our inception until February of 2015 we combined the roles of Chairman of the Board and Chief Executive Officer, but in February of 2015 we began to operate with an Executive Chairman of the Board separate from the Chief Executive Officer when Mr. Kokich became Executive Chairman and Mr. Christothoulou was named Chief Executive Officer at which time Mr. Horowitz transitioned from Chief Executive Officer to Executive Director. In addition, the independent directors on the board have appointed a Vice Chairman from the Board s independent directors, currently Mr. Hanauer. The Vice Chairman presides over the executive sessions of the independent directors, chairs board meetings in the Executive Chair s absence, and provides direction on agendas, schedules and materials for board meetings for the benefit of the independent directors

Board s Role in Risk Management

The Board of Directors as a whole and also at the committee level, is responsible for oversight of our risk assessment and management process. Management is responsible for the Company s day-to-day risk management activities. The Audit Committee periodically reviews risks and exposures associated with financial matters and financial reporting, the Compensation Committee oversees risks relating to compensation programs and policies, and the Nominating and Governance Committee oversees risks associated with Board and corporate governance matters. Furthermore, the Board of Directors periodically reviews risk management matters, including as part of its ongoing corporate strategy review, and is apprised of particular risk management matters in connection with its general oversight and approval of corporate matters.

Board Effectiveness

The Board of Directors performs an annual self-assessment to evaluate its effectiveness in fulfilling its obligations.

Executive Session

The corporate governance guidelines provide that the Company s independent directors shall meet regularly (not less than two times per year) in executive session at which only the Company s independent directors shall be present. The independent directors met in executive session four times during the fiscal year ended December 31, 2014.

Compensation Committee Interlocks and Insider Participation

None of Messrs. Cline and Wisehart and Ms. Devereux-Mills, the members of the Compensation Committee during 2014, are or have been an officer or employee of the Company. No member of the Compensation Committee had any relationship with the Company requiring disclosure under Item 404 of Regulation S-K. During fiscal year 2014, none of the Company s executive officers served on the Compensation Committee (or its equivalent) or Board of Directors of another entity any of whose executive officers served on the Company s Compensation Committee or Board of Directors.

Communications with Directors

The Board of Directors provides a process for Marchex stockholders to send communications to the Board of Directors. Any stockholder who desires to contact the Board of Directors may do so by writing to: Marchex, Inc., 520 Pike Street, Suite 2000, Seattle, Washington 98101, Attention: Ethan Caldwell, Secretary. Communications received by mail will be screened by the Secretary for appropriateness before either forwarding to or notifying the members of the Board of Directors of receipt of a communication.

PROPOSAL TWO RATIFICATION OF APPOINTMENT OF INDEPENDENT

REGISTERED PUBLIC ACCOUNTING FIRM

(Item 2 on Proxy Card)

The Board of Directors has reappointed the firm of KPMG LLP (KPMG) to serve as our independent registered public accounting firm for the current fiscal year. Stockholder ratification of the selection of KPMG as Marchex s independent registered public accounting firm is not required by Marchex s bylaws, Delaware corporate law or otherwise. Notwithstanding the foregoing, the Board of Directors has elected to seek such ratification as a matter of good corporate practice. Should the stockholders fail to ratify the selection of KPMG as our independent registered public accounting firm, the Board of Directors will consider whether to retain that firm for the year ending December 31, 2015 and will consider the appointment of another independent registered public accounting firm. KPMG was the independent registered public accounting firm for the year ended December 31, 2014. Representatives of KPMG are expected to be present at the annual meeting, will have an opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions from stockholders present at the meeting.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR RATIFICATION OF THE APPOINTMENT OF KPMG LLP.

In addition to audit services, KPMG also provided certain non-audit services to Marchex in 2014. The terms of Marchex s engagement with KPMG provide for alternative dispute resolution procedures, exclude the award of punitive damages and contain certain other limitations.

Accounting Fees and Services

During fiscal years 2013 and 2014, we retained KPMG to provide professional services in the following categories and amounts:

Fee Category	2013	2014
Audit Fees	$ 873,000	$ 1,134,000
Audit-Related Fees	23,000	None
Tax Fees	106,000	132,000
All Other Fees	None	None
Total Fees	$ 1,002,000	$ 1,266,000

Audit-related fees in 2013 included audit fees in connection with the proposed separation of the Company into two distinct publicly traded entities, which the Company announced that it would no longer pursue in September 2013.

Tax fees consist of fees for professional services for tax return preparation and consultation on matters related to acquisitions, state tax considerations and tax credits.

The Audit Committee has considered whether the provision of non-audit services is compatible with maintaining the independence of KPMG and has concluded that it is.

The Audit Committee pre-approved 100% of the 2013 and the 2014 KPMG services and fees above pursuant to the pre-approval policy described below.

Policy on Pre-Approval by Audit Committee of Services Performed by Independent Registered Public Accounting Firm

The policy of the Audit Committee is to pre-approve all audit and permissible non-audit services to be performed by the independent registered public accounting firm during the fiscal year. The Audit Committee pre-approves services by authorizing specific projects within the categories outlined above, subject to the budget for each category. The Audit Committee s charter delegates to its chairman the authority to address any requests for pre-approval of services between Audit Committee meetings, and the chairman must report any pre-approval decisions to the Audit Committee at its next scheduled meeting.

The following Report of the Audit Committee and related disclosure shall not be deemed incorporated by reference by any general statement incorporating this proxy statement into any filing under the Securities Act of 1933 (the Securities Act) or under the Securities Exchange Act of 1934 (the Exchange Act), except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee is comprised of Messrs. Cline and Wisehart (Chair) and Ms. Devereux-Mills. The role of the Audit Committee is to assist the Board of Directors in its oversight of Marchex s financial reporting process. The Audit Committee performs the duties set forth in its current charter which is available on the Company s website at *www.marchex.com*.

As noted in the Audit Committee s charter, Marchex s management is responsible for the Company s internal control over financial reporting and preparing the Company s financial statements. The Company s independent registered public accounting firm is responsible for auditing the financial statements and internal control over financial reporting. The activities of the Audit Committee are in no way designed to supersede or alter those traditional responsibilities. The Audit Committee s role does not provide any special assurances with regard to Marchex s financial statements, nor does it involve a professional evaluation of the quality of the audits performed by the independent registered public accounting firm.

Each member of the Audit Committee meets the independence criteria prescribed by applicable law and the rules of the Securities and Exchange Commission (SEC) for Audit Committee membership and is an independent director within the meaning of the NASDAQ listing standards. In addition, the Board of Directors has determined that each of Messrs. Cline and Wisehart qualifies as an Audit Committee financial expert, as defined by SEC rules.

The Audit Committee has reviewed and discussed with Marchex s independent registered public accounting firm, KPMG, matters required to be discussed pursuant to Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 16 (Communications with Audit Committees). We have received from KPMG a formal written statement consistent with the applicable requirements of the PCAOB regarding the independent auditor s communications with the audit committee concerning independence. We have discussed with KPMG matters relating to its independence, including a review of both audit and non-audit fees, and considered the compatibility of non-audit services with the auditor s independence.

The Audit Committee has reviewed and discussed with management and KPMG the audited financial statements for the fiscal year ended December 31, 2014. The Audit Committee met with KPMG, with and without management present, to discuss results of its audits, its evaluation of Marchex s internal control over financial reporting, and the overall quality of Marchex s financial reporting.

Based on the reports, discussions and reviews referred to above, in reliance on management and the independent registered public accounting firm and subject to the limitations on our role and responsibilities in our charter, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2014, for filing with the SEC.

Following a review of the independent registered public accounting firm s performance and qualifications, including consideration of management s recommendation, the Audit Committee approved the reappointment of KPMG as Marchex s independent registered public accounting firm for the fiscal year ending December 31, 2015.

Respectfully submitted,

THE AUDIT COMMITTEE

Dennis Cline

Anne Devereux-Mills

M. Wayne Wisehart, Chair

ADDITIONAL INFORMATION RELATING TO OUR DIRECTORS AND EXECUTIVE OFFICERS

Executive Officers

Our executive officers, and their respective ages, as of March 18, 2015, are as follows:

Name	Age	Position(s)
Michael Arends	44	Chief Financial Officer
Ethan Caldwell	46	Chief Administrative Officer, General Counsel and Secretary
Peter Christothoulou	43	Chief Executive Officer
Russell C. Horowitz	48	Executive Director of the Board of Directors
Clark Kokich	63	Executive Chairman of the Board of Directors
Michael Miller	39	Senior Vice President of Accounting and Corporate Controller

Biographical information for our executive officers who also serve as directors is set forth above (See Proposal One Election of Directors). Biographical information for all other executive officers is set forth below.

Michael Arends. Mr. Arends has served as our Chief Financial Officer since May 2003. Prior to joining Marchex, Mr. Arends held various positions at KPMG since 1995, most recently as a Partner in KPMG s Pacific Northwest Information, Communications and Entertainment assurance practice. Mr. Arends is a Certified Public Accountant and a Chartered Accountant and received a Bachelor of Commerce degree from the University of Alberta.

Ethan Caldwell. Mr. Caldwell is a founder of our Company and has served as our Chief Administrative Officer, General Counsel and Secretary since our inception in January 2003. Mr. Caldwell was previously Senior Vice President, General Counsel and Corporate Secretary of Go2Net, from November 1996, until its merger with InfoSpace through December 2000. Mr. Caldwell received his J.D. from the University of Maryland and his B.A. in Political Science from Occidental College.

Peter Christothoulou. Mr. Christothoulou is a founder of our Company and has served as our Chief Executive Officer since February 2015. Prior to serving as our Chief Executive Officer, Mr. Christothoulou served as our President since December 2011, as our Chief Operating Officer from March 2009 until December 2011 and as our Chief Strategy Officer from our inception in January 2003 through March 2009. Mr. Christothoulou was previously the Senior Vice President of Strategic Initiatives for Go2Net, focused on strategic acquisitions and investments, from January 2000 until its merger with InfoSpace in October 2000, at which time he served as the Senior Vice President of Corporate Strategy and Development of the combined company through the merger integration process until January 2001. Prior to Go2Net, Mr. Christothoulou was a

Vice President in the Investment Banking Group of U.S. Bancorp Piper Jaffray, focused primarily on merger and acquisition advisory services for technology companies, and was with the investment banking firm from 1996 until January 2000.

Michael Miller. Mr. Miller has served as our Senior Vice President of Accounting and Corporate Controller since January 2011 and as our principal accounting officer since May 2011. Prior to joining Marchex, Mr. Miller held various positions at KPMG since 1997, most recently as a senior manager in KPMG s Pacific Northwest Regional Professional Practice Network. Mr. Miller received a Bachelor of Business Administration degree from the University of Notre Dame.

Compensation Discussion and Analysis

The Role of Stockholder Say-on-Pay Votes

In May 2014, we held a stockholder advisory vote to approve the compensation of our named executive officers (the say-on-pay proposal). Our stockholders overwhelmingly approved the compensation of our named executive officers, with approximately 99% of stockholder votes cast in favor of the say-on-pay proposal. The Compensation Committee believes this affirms the stockholders support of our approach to executive compensation, and did not change its approach in 2014.

The Compensation Committee will continue to consider the outcome of our say-on-pay votes when making future compensation decisions for the named executive officers.

Overview

Our named executive officers , or NEOs , are:

- Michael Arends, our Chief Financial Officer;
- Ethan Caldwell, our Chief Administrative Officer, General Counsel and Secretary;
- Peter Christothoulou, our Chief Executive Officer;
- Russell C. Horowitz, our Executive Director of the Board of Directors; and
- Michael Miller, our Senior Vice President of Accounting and Corporate Controller;

You can find detailed information regarding the compensation we paid to our NEOs in the tables that begin on page 22. Our executive compensation programs are intended to serve two related goals:

- **Long-Term Retention of our Strong Management Team**. We believe that our continued success depends on our ability to retain our experienced, complementary and dedicated management team. Although we always consider the ultimate interest of our stockholders in setting NEO compensation, we also must acknowledge that our executives face many career options and we therefore must provide strong incentives for them to continue to participate in our growth.
- **Long-Term Growth in Stockholder Value**. We believe that management compensation packages should reflect as much as possible the risk and opportunity experienced by our stockholders. As a result, we strongly emphasize performance-based compensation arrangements which reward NEOs for contributions to our long-term growth and overall corporate success.

We believe that this long-term focus will appropriately reward our management team for performance that will most benefit our Company and stockholders. We think that a focus on shorter-term results could inappropriately over-or under-compensate our executives due to short-term fluctuations that do not as accurately reflect our corporate growth and the corresponding benefit to our stockholders.

Our long-term emphasis results in NEO compensation packages that are weighted significantly towards long-term equity grants, with a relatively low proportion of NEO compensation derived from cash salaries. Cash bonuses to our NEOs are paid only under our annual incentive plan, which ties such bonus payments directly to our annual corporate performance.

The Compensation Committee is responsible for setting the compensation and benefits for our chief executive officer and our other executive officers, to determine distributions and grants of awards under our various stock and other incentive plans and to assume responsibility for all matters related to the foregoing. Meetings of the Compensation Committee are called by the chair of the committee and the chair sets the agenda for each committee meeting. In performing its responsibilities, the Compensation Committee typically invites, for all or a portion of each meeting, our chief executive officer and other members of management to its meetings. Our chief executive officer meets with the Compensation Committee on an ongoing basis to discuss the objectives and performance of Marchex s NEOs. For compensation decisions relating to our executive officers, the Compensation Committee considers recommendations from our chief executive officer, our general counsel, our chief financial officer and our vice president of people services, who utilize various industry compensation surveys as part of our company wide annual compensation review process. After receipt and discussion of such recommendations with our chief executive officer, the Compensation Committee meets without our chief executive officer to ultimately determine the compensation packages for each of our executive officers. Our chief executive officer does not participate in deliberations regarding his own compensation.

NEO Compensation for 2014

Our Compensation Committee in reviewing our executive compensation packages assesses salary, salary history, the number and value of shares owned by our executives, prior equity grants and vesting and exercise history. The Compensation Committee also considers data regarding compensation paid at public media, internet and technology-based companies of comparable size to our Company and which could compete for the services of our NEOs. Although the compensation practices of our competitors instruct our review, we use that data only to gain perspective and do not benchmark our compensation to any particular level. The Compensation Committee consults with outside counsel in its review but does not engage a compensation consultant.

Base Salary

The 2014 salaries shown in the Summary Compensation Table on page 22 were set by our Compensation Committee based on the compensation review discussed above, as well as a consideration of each NEO s total compensation package including prior equity grants, exercise history, and existing stock ownership. Base salaries are a necessary part of our compensation program and provide executives with a fixed portion of pay that is not performance-based. Our goal is to provide competitive base pay levels. Historically, the Compensation Committee considered our desire to maintain cash remuneration as a relatively small portion of overall compensation. In addition, the Compensation Committee considered each NEO s skills, experience, level of responsibility, performance and contribution to our Company. The Compensation Committee also took into account in conjunction with the NEO s specific areas of responsibilities and objectives, each NEO s contribution to the Company s overall success as a member of the management team. The Compensation Committee considers the relative compensation levels among all the members of the management team to ensure the Company s executive compensation programs are internally consistent and equitable. All salaries are reviewed at least annually and subject to future adjustment by the Compensation Committee. On December 4, 2014 the Compensation Committee, pursuant to its review of annual compensation for executive officers, determined to keep NEO salaries at the 2014 base salary levels for the 2015 fiscal period.

Equity Compensation

All of our employees and directors are eligible to receive options, shares of restricted stock, and/or restricted stock units under our 2012 Stock Incentive Plan (the 2012 Stock Plan).

The Compensation Committee does not automatically grant equity to NEOs every year. The Compensation Committee take into account the various factors outlined in the discussion of Base Salary above as well as the Company s financial performance and its impact on stockholder value and also analyzes existing NEO equity holdings and prior equity awards to take into account whether additional grants are appropriate and necessary to recalibrate the cash-equity balance of NEO compensation packages.

The Compensation Committee did not grant any equity or option awards during the year ended December 31, 2014 to our NEOs under the 2012 Stock Plan, except for an option and restricted stock unit award to Mr. Miller in April of 2014.

The Compensation Committee determined to accelerate vesting in full of all Marchex equity (including any and all options, shares of restricted stock and restricted stock units) held by Mr. Arends as of February 25, 2015 in connection with Mr. Horowitz s transition from Chief Executive Officer to Executive Director.

Most equity awards for employees are tied to their annual performance reviews and are generally granted following the release of our third or fourth quarter financial results. We may occasionally make employee grants outside of that review process; such awards typically are granted as of the date the grant is approved. All new-hire awards have a grant date set to correspond to the date of hire. All options have an exercise price set at the closing market price of our Class B common stock on the grant date.

Annual Incentive Plan

The Compensation Committee originally adopted our annual incentive plan in 2006 and as amended to date (the Incentive Plan) to motivate and reward key employees for enabling our Company to achieve specified corporate objectives together, to increase the competitiveness of our management compensation packages without increasing our fixed costs, and to align management compensation with key measures of our financial performance.

The Compensation Committee in its discretion determines the maximum amount available for award, in the aggregate, to all plan participants in light of the number of participants and the Company s resources. The Compensation Committee also determines the participants in the pool. Eligibility determinations are based upon the Compensation Committee s assessment of the importance of a participant s role, together with such participant s overall cash and equity compensation level. Finally, the Compensation Committee determines the measures of performance on which bonus awards are based, using any of the following as it determines in its sole discretion:

- revenues;
- pre-tax income;
- adjusted operating income before amortization;
- operating income before amortization;
- operating income;
- net earnings;
- net income;
- cash flow or funds from operations;

adjusted earnings per share;

earnings per share;

appreciation in the fair market value of our stock;

cost reduction or savings;

implementation of critical processes or projects; or

adjusted earnings before interest, taxes, depreciation and amortization, or adjusted earnings before any of them.

The Compensation Committee determined that for the 2014 fiscal period, a maximum of up to $1,264,000 would be available for award, in the aggregate, to all plan participants. The participants for the 2014 fiscal period were Mr. Arends, Mr. Caldwell and Mr. Christothoulou, and the target bonuses were 100% of the aggregate group base salary and were based on achieving specified revenue and adjusted OIBA (operating income before amortization) targets for the 2014 fiscal period as follows:

If Revenue or Adjusted OIBA achievement is:	**Bonus Payout % of base salary**
<90%	0%
90 94.9%	35%
95 99.9%	60%
100 104.9%	100%
105 109.9%	135%
>110%	160%

Bonuses for 2014 were based one third on attaining the revenue target and two thirds on attaining the adjusted OIBA target.

The Compensation Committee elected to use these revenue and adjusted OIBA targets because it believes that such targets most accurately reflect our growth and improvements in our corporate performance without the impact of certain non-cash and non-recurring expenses which the Company does not regard as ongoing costs of doing business. The Compensation Committee set a range of specific revenue and adjusted OIBA targets based on a review of our actual revenue and adjusted OIBA for the fiscal year ended December 31, 2013 and our budgeted revenue and adjusted OIBA for the 2014 fiscal year. At the low end of the range, the targets were intended to be difficult but realistic given our expectations regarding corporate performance. The high end of the range, intended to reflect optimum Company performance, were set significantly higher than our projected financial results and were considered stretch goals.

The Compensation Committee also has absolute discretion to award no bonuses at all even if the highest target is achieved. It is our intention that any such bonus payments would still constitute a relatively small percentage of our NEO compensation so that the bulk of their compensation package will remain dependent on our long-term growth. For 2014, the Compensation Committee awarded bonuses under the Incentive Plan in the aggregate amount of $923,084. The Compensation Committee separately awarded Mr. Miller a bonus of $71,250 based on his performance during 2014.

Retention Agreements

We have entered into retention agreements with each of Messrs. Arends, Caldwell and Christothoulou. In addition, the majority of our outstanding equity grants held by our executive officers will vest in full immediately upon any change of control. These arrangements are described on pages 29-31.

We believe it is appropriate to have these arrangements in place to promote our goal of the long-term retention of our management team. The Compensation Committee took into account the retention practices of our competitors in establishing the terms of such retention agreements.

Risk Assessment of Compensation Policies and Practices

We believe our compensation policies and practices do not motivate imprudent risk taking. In this regard, we note the following: (i) our annual incentive compensation is based on balanced performance metrics that promote disciplined progress towards longer-term Company goals; (ii) we do not offer short-term incentives that might drive high-risk investments at the expense of long-term Company value; and (iii) our compensation programs are weighted towards offering long-term incentives that reward sustainable performance, especially when considering our executive share ownership. Accordingly, we believe that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the Company.

The following Compensation Committee Report and related disclosure shall not be deemed incorporated by reference by any general statement incorporating this proxy statement into any filing under the Securities Act or under the Exchange Act, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

COMPENSATION COMMITTEE REPORT

We, the Compensation Committee of the Board of Directors of Marchex, Inc., have reviewed and discussed the Compensation Discussion and Analysis contained in this proxy statement with management. Based on such review and discussion, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and in Marchex s Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Respectfully submitted,

THE COMPENSATION COMMITTEE

Dennis Cline

Anne Devereux-Mills, Chair

M. Wayne Wisehart

Summary Compensation Table[1][2]

The following table sets forth information concerning the compensation earned during the fiscal years ended December 31, 2012, 2013 and 2014, as applicable, by our NEOs, who are our chief executive officer, our chief financial officer, our three other most highly compensated executive officers:

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)[3]	Option Awards ($)[4]	Non-Equity Incentive Plan Compensation ($)	Total ($)
Michael Arends	2014	277,500				230,771	508,271
Chief Financial Officer	2013	275,000		1,511,550	694,925	191,479	2,672,954
	2012	275,000		377,670	165,686		818,356
Ethan Caldwell	2014	250,000				230,771	480,771
Chief Administrative Officer, General Counsel	2013	245,000		655,125	369,938	191,479	1,461,542
and Secretary	2012	245,000		356,682	156,456		758,138
Peter Christothoulou	2014	250,000				230,771	480,771
Chief Executive Officer	2013	245,000		939,013	831,444	191,479	2,206,936
	2012	245,000		451,149	197,950		894,099
Russell C. Horowitz	2014	250,000				230,771	480,771
Executive Director of the Board of Directors	2013	245,000		655,125	369,938	191,479	1,461,542
	2012	245,000		493,118	266,418		1,004,536
Michael Miller	2014	192,500	71,250	298,320	125,100		687,170
Senior Vice President of Accounting and Corporate Controller	2013	188,125	60,500	94,275	35,100		378,000

1. Includes only those columns relating to compensation awarded to, earned by or paid to the NEOs in 2012, 2013 and 2014 except with respect to Mr. Miller who was not an NEO in 2012. All other columns have been omitted.
2. The total value of all perquisites and personal benefits of each NEO falls below the reportable amount for disclosure within this table.
3. These amounts do not reflect whether the NEO has actually realized or will realize a financial benefit from the awards (such as by vesting in a restricted stock or restricted stock unit award). Amounts represent the aggregate grant date fair value of restricted stock and restricted stock units awards each year computed in accordance with FASB ASC 718, excluding the effect of estimated forfeitures. The fair value of the shares underlying the restricted stock and restricted stock units that vest based on satisfaction of certain service and market conditions is estimated using the binomial lattice model. For a more detailed discussion on the valuation model and assumptions used to calculate the fair value of each stock award, refer to Note 6 to the consolidated financial statements contained in our 2014 Annual Report on Form 10-K filed on March 10, 2015.
4. These amounts do not reflect whether the NEO has actually realized or will realize a financial benefit from the awards (such as by exercising stock options). Amounts represent the aggregate grant date fair value of option awards each year computed in accordance with FASB ASC 718, excluding the effect of estimated forfeitures. The fair value of the shares underlying the option awards that vest based on time is estimated using the Black-Scholes option pricing model. The fair value of the shares underlying the option awards that vest based on satisfaction of certain service and market conditions is estimated using the binomial lattice model. For a more detailed discussion on the valuation model and assumptions used to calculate the fair value of each stock award, refer to Note 6 to the consolidated financial statements contained in our 2014 Annual Report on Form 10-K filed on March 10, 2015.

Grants of Plan-Based Awards[(1)]

The following table sets forth certain information with respect to plan-based awards granted during the fiscal year ended December 31, 2014 to our NEOs:

					Equity Grants			
Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards[(2)] Threshold	Target	Maximum	All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($)	Grant Date Fair Value of Stock and Option Awards ($)[(3)]
Michael Arends								
Annual Incentive Plan	1/1/2014	$ 12,844	$ 256,875	$ 411,000				
Ethan Caldwell								
Annual Incentive Plan	1/1/2014	$ 12,844	$ 256,875	$ 411,000				
Peter Christothoulou								
Annual Incentive Plan	1/1/2014	$ 12,844	$ 256,875	$ 411,000				
Russell C. Horowitz								
Annual Incentive Plan	1/1/2014	$ 12,844	$ 256,875	$ 411,000				
Michael Miller								
Stock Options	4/4/2014					30,000	10.15	125,100
Restricted Stock Units	4/4/2014				30,000			298,620

1. Includes only those columns related to plan based awards granted during 2014. All other columns have been omitted.
2. The minimum amount is 5% of the aggregate group base salary, which is the minimum amount if only the revenue target is achieved. The target amount is based on 100% of the aggregate group base salary if the revenue and adjusted OIBA targets are met and the maximum amount is 160% of the aggregate group base salary if the revenue and adjusted OIBA targets are met. The actual amount awarded has been disclosed in the Summary Compensation Table on page 22 under Non-Equity Incentive Plan Compensation.
3. These amounts represent the aggregate grant date fair value in accordance with FASB ACS Topic 718, excluding the effect of estimated forfeitures. These amounts do not reflect whether the NEO has actually realized or will realize a financial benefit from the awards (such as by vesting in a restricted stock unit award or exercising a stock option). For a more detailed discussion on the valuation model and assumptions used to calculate the fair value of each stock award, refer to Note 6 to the consolidated financial statements contained in our 2014 Annual Report on Form 10-K filed on March 10, 2015.

Outstanding Equity Awards at 2014 Fiscal Year-End[1]

The following table sets forth certain information with respect to the value of all unexercised options and unvested stock awards previously awarded to our NEOs as of December 31, 2014. Certain option and stock awards provide for accelerated vesting in full upon a change of control. For more information on these acceleration provisions, please refer to pages 27-31.

		Option Awards					Stock Awards			
	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)[2]	Number of Unearned Shares or Units of Stock That Have Not Vested (#)	Market Value of Unearned Shares or Units of Stock That Have Not Vested ($)[2]
	1/5/2006	100,000			22.76	1/5/2016				
	8/12/2009	21,601			4.63	8/12/2019				
	5/11/2010	13,167			4.89	5/11/2020				
	12/20/2010	98,000			8.77	12/20/2021				
	12/20/2011[3]	21,000	7,000		6.35	12/20/2020				
	12/20/2011	72,000			6.35	12/20/2020				
k	12/20/2011[4]						14,000	64,260		
	12/20/2012[3]	9,204	22,250		4.41	12/20/2022				
	12/20/2012[5]	22,761		15,875	4.41	12/20/2022				
k	12/20/2012[4]						22,250	102,128		
k	12/20/2012[5]								15,875	72,866
	12/20/2013[3]	23,750	71,250		8.94	12/20/2023				
	12/20/2013[6]	22,500		22,500	8.94	12/20/2023				
k	12/20/2013[4]						33,750	154,913		
k	12/20/2013[6]								22,500	103,275
	8/12/2009	100,000			4.63	8/12/2019				
	5/11/2010	76,500			4.89	5/11/2020				
	12/20/2010	62,000			8.77	12/20/2020				
	12/20/2011[3]	18,750	6,250		6.35	12/20/2021				
	12/20/2011	45,000			6.35	12/20/2021				
k	12/20/2011[4]						12,500	57,375		
	12/20/2012[3]	21,000	21,000		4.41	12/20/2022				
	12/20/2012[5]	28,000		15,000	4.41	12/20/2022				

For the Three Montl

	September 30,		September 30,	
	2017	2016	2017	2016
e	$ 3,076	$ 2,075	$ 9,439	$ 6,363
	(97)	(524)	924	1,528

g

ation for				
OTTI in (1)	(1)	10	(3)	26
zed				
	(98)	(514)	921	1,554
	33	174	(313)	(528)
	(65)	(340)	608	1,026
plan				
	—	—	—	—
ation for ded ne				
	—	225	—	225
zed				
	—	225	—	225
	—	(76)	—	(76)
	—	149	—	149
sive ne	(65)	(191)	608	1,175
sive				
	$ 3,011	$ 1,884	$ 10,047	$ 7,538
ation / ine	Tax expense (benefit)			
es /				
es				
	$ —	$ (3)	$ 1	$ (9)
/				
	—	(77)	—	(77)

The accompanying notes are an integral part of these unaudited financial statements.

Consolidated Statements of Changes in Shareholders' Equity

For the Nine Months ended September 30, 2017 and 2016

(Dollars in thousands, except per share data) (unaudited)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at December 31, 2015	$ 4,659	$ 38,778	$ 78,517	$ (3,722)	$ (6,856)	$ 111,376
Net income	—	—	6,363	—	—	6,363
Other comprehensive income	—	—	—	1,175	—	1,175
Cash dividends declared, $.61 per share	—	—	(2,618)	—	—	(2,618)
Acquisition of 30,196 shares of treasury stock	—	—	—	—	(700)	(700)
Treasury shares issued under employer stock purchase plan, 539 shares	—	2	—	—	10	12
Treasury shares issued under dividend reinvestment plan, 24,171 shares	—	134	—	—	438	572
Common stock issued under dividend reinvestment plan, 25,230 shares	25	527	—	—	—	552
Common stock issued under incentive stock option plan, 3,600 shares	4	55	—	—	—	59
Stock option compensation expense	—	88	—	—	—	88
Balance at September 30, 2016	$ 4,688	$ 39,584	$ 82,262	$ (2,547)	$ (7,108)	$ 116,879
Balance at December 31, 2016	$ 4,688	$ 39,752	$ 83,081	$ (4,215)	$ (6,813)	$ 116,493
Net income	—	—	9,439	—	—	9,439
Other comprehensive income	—	—	—	608	—	608
Cash dividends declared, $.69 per share	—	—	(2,988)	—	—	(2,988)
Treasury shares issued under employee stock purchase plan, 6,568 shares	—	29	—	—	120	149
Treasury shares issued under dividend reinvestment plan, 22,990 shares	—	296	—	—	422	718
Stock option compensation expense	—	161	—	—	—	161
Balance at September 30, 2017	$ 4,688	$ 40,238	$ 89,532	$ (3,607)	$ (6,271)	$ 124,580

The accompanying notes are an integral part of these unaudited financial statements.

3

Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	2017	2016
(Dollars in thousands) (unaudited)		
Cash flows from operating activities		
Net income	$ 9,439	$ 6,363
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	973	1,002
Net amortization of loans and investment securities	1,269	1,218
Amortization and net change in mortgage servicing rights valuation	41	41
Provision for loan losses	420	3,325
Gain on sales of securities	(3)	(4)
Impairment write-down on securities recognized in earnings	—	30
Loans originated for sale	(6,773)	(6,598)
Proceeds from sale of loans	6,861	6,692
Write-down of other real estate owned	60	46
Write-down on premises and equipment available for sale	45	—
Net loss on sale or disposal of other real estate/other repossessed assets	23	31
Increase in cash surrender value of life insurance	(391)	(399)
Stock option compensation	161	88
Decrease in other assets	(1,242)	154
Increase (decrease) in other liabilities	2,753	(2,247)
Net cash provided by operating activities	13,636	9,742
Cash flows from investing activities		
Proceeds from sales and calls of investment securities available for sale	875	1,925
Proceeds from maturities and pay-downs of securities available for sale	16,875	18,984
Purchase of investment securities available for sale	(6,533)	(16,605)
Net decrease in restricted stock	1,311	(336)
Net increase in loans	(17,643)	(79,275)
Capital expenditures	(871)	(515)
Proceeds from surrender of life insurance policy	—	436
Proceeds from sale of other assets	154	—
Proceeds from sale of other real estate	2,255	625
Net cash used in investing activities	(3,577)	(74,761)
Cash flows from financing activities		
Net increase in demand deposits, interest-bearing checking, and savings accounts	50,325	68,454
Net increase (decrease) in time deposits	703	(8,414)
Net decrease (increase) in short-term borrowings	(24,270)	8,530
Dividends paid	(2,988)	(2,618)
Treasury shares issued under employee stock purchase plan	149	—
Treasury shares issued under dividend reinvestment plan	718	—
Common stock issued under stock option plans	—	71
Common stock issued under dividend reinvestment plan	—	1,124
Purchase of Treasury shares	—	(700)
Net cash provided by financing activities	24,637	66,447

Increase in cash and cash equivalents	34,696	1,428
Cash and cash equivalents as of January 1	36,665	39,166
Cash and cash equivalents as of September 30	$ 71,361	$ 40,594
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for:		
Interest on deposits and other borrowed funds	$ 1,786	$ 1,643
Income taxes	$ 3,405	$ 2,100
Noncash Activities:		
Loans transferred to Other Real Estate	$ 52	$ 123

The accompanying notes are an integral part of these unaudited financial statements.

FRANKLIN FINANCIAL SERVICES CORPORATION and SUBSIDIARIES

UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of Franklin Financial Services Corporation (the Corporation), and its wholly-owned subsidiaries, Farmers and Merchants Trust Company of Chambersburg (the Bank) and Franklin Future Fund Inc. Farmers and Merchants Trust Company of Chambersburg is a commercial bank that has one wholly-owned subsidiary, Franklin Financial Properties Corp. Franklin Financial Properties Corp. holds real estate assets that are leased by the Bank. Franklin Future Fund Inc. is a non-bank investment company. The activities of non-bank entities are not significant to the consolidated totals. All significant intercompany transactions and account balances have been eliminated.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the consolidated financial position, results of operations, and cash flows as of September 30, 2017, and for all other periods presented have been made.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation’s 2016 Annual Report on Form 10-K. The consolidated results of operations for the three and nine month periods ended September 30, 2017 are not necessarily indicative of the operating results for the full year. Management has evaluated subsequent events for potential recognition and/or disclosure through the date these consolidated financial statements were issued.

The consolidated balance sheet at December 31, 2016 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete consolidated financial statements.

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits in other banks and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Earnings per share are computed based on the weighted average number of shares outstanding during each period end. A reconciliation of the weighted average shares outstanding used to calculate basic earnings per share and diluted earnings per share follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Dollars and shares in thousands, except per share data)	2017	2016	2017	2016
Weighted average shares outstanding (basic)	4,343	4,307	4,332	4,295
Impact of common stock equivalents	21	7	21	3
Weighted average shares outstanding (diluted)	4,364	4,314	4,353	4,298

Anti-dilutive options excluded from calculation	—	9	—	37
Net income	$ 3,076	$ 2,075	$ 9,439	$ 6,363
Basic earnings per share	$ 0.71	$ 0.48	$ 2.18	$ 1.48
Diluted earnings per share	$ 0.70	$ 0.48	$ 2.17	$ 1.48

Note 2. Recent Accounting Pronouncements

Standard	Description	Effective Date	Effect on the financial statements or other significant matters
ASU 2016-09, Stock Compensation (Topic 718): Improvements to Employee Share-based Payment Accounting	The standard requires entities to recognize the income tax effects of share-based awards in the income statement when the awards vest or are settled (i.e. the additional paid-in capital pools will be eliminated). The guidance on employers' accounting for an employee's use of shares to satisfy the employer's statutory income tax withholding obligation and for forfeitures is changing. The standard also provides an entity the option to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur.	January 1, 2017	We adopted the standard during the first quarter of 2017. Due to the type of stock compensation plans used by the Corporation, there was no effect on the Corporation's consolidated financial statements.
ASU 2017-09, Premium Amortization on Purchased Callable Debt Securities	The standard shortens the amortization period for premiums on purchased callable debt securities to the earliest call date, rather than amortizing over the full contractual term. The standard does change the standard for securities held at a discount. The amendments require companies to reset the effective yield using the payment terms of the debt security if the call option is not exercised on the earliest call date. If the security has additional future called dates, any excess of the amortized cost basis over the amount repayable by the issuer at the next call date should be amortized to the next call date.	January 1, 2017	We adopted the standard during the first quarter of 2017, and there was no effect on the Corporation's consolidated financial statements.
ASU 2016-15, Statements of Cash Flow (Topic 320): Classification of Certain Cash Receipts and Cash Payments	The standard clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are intended to reduce diversity in practice. The standard contains additional guidance clarifying when an entity should separate cash receipts and cash payments and classifies them into more than one class of cash flows (including when reasonable judgement is required to estimate and allocate cash flows) versus when an entity should classify the aggregate amount into one class of cash flows on the basis of predominance.	January 1, 2018	We do not expect this guidance will have an effect on the Corporation's consolidated financial statements.

ASU 2017-07, Employee Benefits Plan (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	This standard requires an employer to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable.	January 1, 2018	We do not expect this standard will have an effect on the Corporation's consolidated financial statements.
ASU 2014-09, Revenue from Contracts with Customers (Topic 606)	The amendments in this Update (ASU 2014-09) establish a comprehensive revenue recognition standard. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. Three basic transition methods are available – full retrospective, retrospective with certain practical expedients, and a cumulative effect approach.	January 1, 2018	The majority of our revenue comes from net interest income, and is explicitly out of scope of the guidance. The contracts in noninterest income that are in scope of the guidance are primarily related to service charges and fees on deposit accounts, investment and trust income and other service charges and fees. We have completed the analysis of the contracts in scope and have determined only estate settlement fees will require a change in the method of revenue recognition. The effect of this change has not been determined but it is not expected to be material to the Corporation's consolidated financial statements.

ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	The standard amends the guidance on the classification and measurement of financial instruments. Some of the amendments include the following: 1) requires equity investments to be measured at fair value with changes in fair value recognized in net income; 2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; and 4) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value; among others.	January 1, 2018	We do not expect this guidance will have a material effect on the Corporation's consolidated financial statements. We do not have a significant number of AFS equity securities. Additionally we do not have financial liabilities accounted for under the fair value option. The adoption of this guidance is not expected to be material.
ASU 2016-02, Leases (Topic 842)	From the lessee's perspective, the new standard established a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessees. From the lessor's perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as financing. If the lessor doesn't convey risks and rewards or control, an operating lease results.	January 1, 2019	The Corporation currently has real estate and equipment leases that it classifies as operating leases that are not recognized on the balance sheet. Under the new standard, these leases will move onto the balance sheet. The Corporation has identified a lease accounting model it expects to use to implement the standard. It is expected the model will be functional during the fourth quarter of 2017, but the Corporation does not plan to early adopt the standard. The Corporation believes the new standard will not have a material effect on its consolidated financial statements.
ASU 2017-04, Goodwill (Topic 350)	This guidance, among other things, removes step 2 of the goodwill impairment test thus eliminating the need to determine the fair value of individual assets and liabilities of the reporting unit. Upon adoption of this standard, goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This may result in more or less impairment being recognized than under the current guidance.	January 1, 2020	We do not currently expect this guidance to have a material effect on the Corporation's consolidated financial statements based upon the most recent goodwill impairment analysis.

ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	This standard requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument. The ASU replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for credit losses for purchased financial assets with a more-than insignificant amount of credit deterioration since origination ("PCD assets"), should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance for credit losses is added to the purchase price ("gross up approach") to determine the initial amortized cost basis. The subsequent account for PCD financial assets is the same expected loss model described above.	January 1, 2020	We have formed an implementation team led by the Corporation's Risk Management function. The team is reviewing the requirements of the ASU and evaluating methods and models for implementation. The Corporation preliminarily believes the new standard will result in earlier recognition of additions to the allowance for loan losses and possibly a larger allowance for loan loss balance with a corresponding increase in the provision for loan losses in results of operations; however, the Corporation is continuing to evaluate the impact of the pending adoption of the new standard on its consolidated financial statements.

Note 3. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive losses included in shareholders' equity are as follows:

(Dollars in thousands)	September 30, 2017	December 31, 2016
Net unrealized gains (losses) on securities	$ 901	$ (20)
Tax effect	(306)	7
Net of tax amount	595	(13)
Accumulated pension adjustment	(6,366)	(6,366)
Tax effect	2,164	2,164
Net of tax amount	(4,202)	(4,202)
Total accumulated other comprehensive loss	$ (3,607)	$ (4,215)

Note 4. Investments

The amortized cost and estimated fair value of investment securities available for sale as of September 30, 2017 and December 31, 2016 are as follows:

(Dollars in thousands) September 30, 2017	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Equity securities	$ 164	$ 183	$ —	$ 347
U.S. Government and Agency securities	11,591	123	(32)	11,682
Municipal securities	59,920	971	(193)	60,698
Trust preferred securities	5,994	4	(187)	5,811
Agency mortgage-backed securities	52,818	359	(402)	52,775
Private-label mortgage-backed securities	905	81	(5)	981
Asset-backed securities	29	—	(1)	28
	$ 131,421	$ 1,721	$ (820)	$ 132,322

(Dollars in thousands) December 31, 2016	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Equity securities	$ 164	$ 126	$ —	$ 290
U.S. Government and Agency securities	12,598	148	(26)	12,720
Municipal securities	62,763	793	(571)	62,985
Trust preferred securities	5,979	—	(518)	5,461
Agency mortgage-backed securities	61,305	431	(452)	61,284
Private-label mortgage-backed securities	1,053	56	(5)	1,104
Asset-backed securities	33	—	(2)	31
	$ 143,895	$ 1,554	$ (1,574)	$ 143,875

At September 30, 2017 and December 31, 2016, the fair value of investment securities pledged to secure public funds, trust balances, deposit and other obligations totaled $92.5 million and $79.1 million, respectively.

The amortized cost and estimated fair value of debt securities at September 30, 2017, by contractual maturity are shown below. Actual maturities may differ from contractual maturities because of prepayment or call options embedded in the securities.

(Dollars in thousands)	Amortized cost	Fair value
Due in one year or less	$ 951	$ 953
Due after one year through five years	14,110	14,354
Due after five years through ten years	33,407	33,683
Due after ten years	29,066	29,229
	77,534	78,219
Mortgage-backed securities	53,723	53,756
	$ 131,257	$ 131,975

The composition of the net realized securities gains for the three and nine months ended are as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Dollars in thousands)	2017	2016	2017	2016
Gross gains realized	$ 1	$ —	$ 3	$ 4
Gross losses realized	—	—	—	—
Net gains realized	$ 1	$ —	$ 3	$ 4

The following table provides additional detail about trust preferred securities as of September 30, 2017:

Trust Preferred Securities

(Dollars in thousands)

Deal Name	Maturity	Single Issuer or Pooled	Class	Amortized Cost	Fair Value	Gross Unrealized Gain (Loss)	Lowest Credit Rating Assigned
BankAmerica Cap III	1/15/2027	Single	Preferred Stock	$ 969	$ 945	$ (24)	BB+
Wachovia Cap Trust II	1/15/2027	Single	Preferred Stock	280	282	2	BBB
Huntington Cap Trust	2/1/2027	Single	Preferred Stock	949	903	(46)	BB
Corestates Captl Tr II	2/15/2027	Single	Preferred Stock	946	948	2	BBB
Huntington Cap Trust II	6/15/2028	Single	Preferred Stock	905	852	(53)	BB
Chase Cap VI JPM	8/1/2028	Single	Preferred Stock	967	934	(33)	BBB-
Fleet Cap Tr V	12/18/2028	Single	Preferred Stock	978	947	(31)	BB+

$ 5,994	$ 5,811	$ (183)

The following table provides additional detail about private label mortgage-backed securities as of September 30, 2017:

Private Label Mortgage Backed Securities

(Dollars in thousands) Description	Origination Date	Amortized Cost	Fair Value	Gross Unrealized Gain (Loss)	Collateral Type	Lowest Credit Rating Assigned	Credit Support %	Cumulative OTTI Charges
MALT 2004-6 7A1	6/1/2004	$ 250	$ 245	$ (5)	ALT A	CCC	16.60	$ —
RALI 2005-QS2 A1	2/1/2005	113	127	14	ALT A	CC	0.44	15
RALI 2006-QS4 A2	4/1/2006	343	369	26	ALT A	Caa3	—	323
GSR 2006-5F 2A1	5/1/2006	30	39	9	Prime	D	—	15
RALI 2006-QS8 A1	7/28/2006	169	201	32	ALT A	Ca	—	242
		$ 905	$ 981	$ 76				$ 595

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Impairment:

The investment portfolio contained ninety-three securities with $51.1 million of temporarily impaired fair value and $820 thousand in unrealized losses at September 30, 2017. The total unrealized loss position has improved from a $1.6 million unrealized loss at year-end 2016.

For securities with an unrealized loss, Management applies a systematic methodology in order to perform an assessment of the potential for other-than-temporary impairment. In the case of debt securities, investments considered for other-than-temporary impairment: (1) had a specified maturity or repricing date; (2) were generally expected to be redeemed at par, and (3) were expected to achieve a recovery in market value within a reasonable period of time. In addition, the Bank considers whether it intends to sell these securities or whether it will be forced to sell these securities before the earlier of amortized cost recovery or maturity. Equity securities are assessed for other-than-temporary impairment based on the length of time of impairment, dollar amount of the impairment and general market and financial conditions relating to specific issues. The impairment identified on debt and equity securities and subject to assessment at September 30, 2017, was deemed to be temporary and required no further adjustments to the financial statements, unless otherwise noted.

The following table reflects temporary impairment in the investment portfolio (excluding restricted stock), aggregated by investment category, length of time that individual securities have been in a continuous unrealized loss position and the number of securities in each category as of September 30, 2017 and December 31, 2016:

	September 30, 2017								
	Less than 12 months			12 months or more			Total		
(Dollars in thousands)	Fair Value	Unrealized Losses	Count	Fair Value	Unrealized Losses	Count	Fair Value	Unrealized Losses	Count
U.S. Government and Agency securities	$ 1,690	$ (3)	4	$ 3,628	$ (29)	10	$ 5,318	$ (32)	14
Municipal securities	4,823	(34)	8	6,561	(159)	12	11,384	(193)	20
Trust preferred securities	—	—	—	4,581	(187)	5	4,581	(187)	5
Agency mortgage-backed securities	14,801	(115)	27	14,760	(287)	25	29,561	(402)	52
Private-label mortgage-backed securities	245	(5)	1	—	—	—	245	(5)	1
Asset-backed securities	—	—	—	4	(1)	1	4	(1)	1
Total temporarily impaired securities	$ 21,559	$ (157)	40	$ 29,534	$ (663)	53	$ 51,093	$ (820)	93

	December 31, 2016								
	Less than 12 months			12 months or more			Total		
(Dollars in thousands)	Fair Value	Unrealized Losses	Count	Fair Value	Unrealized Losses	Count	Fair Value	Unrealized Losses	Count
U.S. Government and Agency securities	$ 789	$ (9)	1	$ 3,413	$ (17)	10	$ 4,202	$ (26)	11
Municipal securities	23,407	(417)	43	1,598	(154)	2	25,005	(571)	45
Trust preferred securities	—	—	—	5,461	(518)	7	5,461	(518)	7
Agency mortgage-backed securities	26,995	(359)	39	4,656	(93)	11	31,651	(452)	50
Private-label mortgage-backed securities	281	(5)	1	—	—	—	281	(5)	1
Asset-backed securities	—	—	—	4	(2)	1	4	(2)	1
Total temporarily impaired securities	$ 51,472	$ (790)	84	$ 15,132	$ (784)	31	$ 66,604	$ (1,574)	115

The unrealized loss in the municipal bond portfolio decreased to $193 thousand from $571 thousand at December 31, 2016 as market prices improved during the quarter. There are twenty securities in this portfolio with an unrealized loss and the loss in this portfolio is deemed to be non-credit related and no other-than-temporary impairment charges have been recorded.

The trust preferred portfolio contains five securities with a fair value of $4.6 million and an unrealized loss of $187 thousand. The trust-preferred securities held by the Bank are single entity issues, not pooled trust preferred securities. Therefore, the impairment review of these securities is based only on the issuer and the security cannot be impaired by the performance of other issuers as if it was a pooled trust-preferred bond. All of the Bank’s trust preferred securities are single issue, variable rate notes with long maturities (2027 – 2028). None of these bonds have suspended or missed a dividend payment. At September 30, 2017, the Bank believes it will be able to collect all interest and principal due on these bonds and no other-than-temporary-impairment charges were recorded.

The PLMBS sector is showing an unrealized gain of $76 thousand at quarter end. This is primarily a result of the cumulative OTTI charges recorded on this portfolio. Due to the nature of these bonds, they are evaluated closely. These bonds were all rated AAA at time of purchase, but have since experienced rating declines. Some have experienced increased delinquencies and defaults, while others have seen the credit support increase as the bonds paid-down. The Bank monitors the performance of the PLMBS investments on a regular basis and reviews delinquencies, default rates, credit support levels and various cash flow stress test scenarios. In determining the credit related loss, Management considers all principal past due 60 days or more as a loss. If additional principal moves beyond 60 days past due, it will also be considered a loss. The Bank has recorded $595 thousand of cumulative impairment charges on this portfolio. Management continues to monitor these securities and it is possible that additional write-downs may occur if current loss trends continue.

The following table represents the cumulative credit losses on debt securities recognized in earnings for:

(Dollars in thousands)	Nine Months Ended September 30, 2017	2016
Balance of cumulative credit-related OTTI at January 1	$ 595	$ 555
Additions for credit-related OTTI not previously recognized	—	30
Additional increases for credit-related OTTI previously recognized when there is no intent to sell and no requirement to sell before recovery of amortized cost basis	—	—
Decreases for previously recognized credit-related OTTI because there was an intent to sell	—	—
Reduction for increases in cash flows expected to be collected	—	—
Balance of credit-related OTTI at September 30	$ 595	$ 585

The Bank held $456 thousand of restricted stock at September 30, 2017. Except for $30 thousand, this investment represents stock in FHLB Pittsburgh. The Bank is required to hold this stock to be a member of FHLB and it is carried at cost of $100 per share. The level of FHLB stock held is determined by FHLB and is comprised of a minimum membership amount plus a variable activity amount. FHLB stock is evaluated for impairment primarily based on an assessment of the ultimate recoverability of its cost. As a government sponsored entity, FHLB has the ability to raise funding through the U.S. Treasury that can be used to support its operations. There is not a public market for FHLB stock and the benefits of FHLB membership (e.g., liquidity and low cost funding) add value to the stock beyond purely financial measures. Management intends to remain a member of the FHLB and believes that it will be able to fully recover the cost basis of this investment.

Note 5. Loans

The Bank reports its loan portfolio based on the primary collateral of the loan. It further classifies these loans by the primary purpose, either consumer or commercial. The Bank's residential real estate loans include long-term loans to individuals and businesses secured by mortgages on the borrower's real property and include home equity loans. Construction loans are made to finance the purchase of land and the construction of residential and commercial buildings thereon, and are secured by mortgages on real estate. Commercial real estate loans include construction, owner and non-owner occupied properties and farm real estate. Commercial loans are made to businesses of various sizes for a variety of purposes including property, plant and equipment, working capital and loans to government municipalities. Commercial lending is concentrated in the Bank's primary market, but also includes purchased loan participations. Consumer loans are comprised of installment loans and unsecured personal lines of credit.

A summary of loans outstanding, by class, at the end of the reporting periods is as follows:

(Dollars in thousands)	September 30, 2017	December 31, 2016
Residential Real Estate 1-4 Family		
Consumer first liens	$ 98,905	$ 103,125
Commercial first lien	62,075	65,445
Total first liens	160,980	168,570
Consumer junior liens and lines of credit	44,789	44,817
Commercial junior liens and lines of credit	5,352	5,396
Total junior liens and lines of credit	50,141	50,213
Total residential real estate 1-4 family	211,121	218,783
Residential real estate - construction		
Consumer	1,610	1,350
Commercial	7,966	7,625
Total residential real estate construction	9,576	8,975
Commercial real estate	403,746	390,584
Commercial	282,527	270,826
Total commercial	686,273	661,410
Consumer	4,533	4,705
	911,503	893,873
Less: Allowance for loan losses	(11,543)	(11,075)
Net Loans	$ 899,960	$ 882,798
Included in the loan balances are the following:		
Net unamortized deferred loan costs	$ 223	$ 242
Loans pledged as collateral for borrowings and commitments from:		
FHLB	$ 708,950	$ 711,682
Federal Reserve Bank	36,288	41,152
	$ 745,238	$ 752,834

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Note 6. Loan Quality and Allowance for Loan Losses

The following table presents, by class, the activity in the Allowance for Loan Losses (ALL) for the periods ended:

	Residential Real Estate 1-4 Family							
	First	Junior Liens & Lines of		Commercial				
(Dollars in thousands)	Liens	Credit	Construction	Real Estate	Commercial	Consumer	Unallocated	Total
ALL at June 30, 2017	$ 1,075	$ 322	$ 281	$ 6,052	$ 2,023	$ 100	$ 1,454	$ 11,307
Charge-offs	—	—	—	(9)	(6)	(31)	—	(46)
Recoveries	1	5	—	17	5	4	—	32
Provision	(15)	(3)	(42)	198	(19)	19	112	250
ALL at September 30, 2017	$ 1,061	$ 324	$ 239	$ 6,258	$ 2,003	$ 92	$ 1,566	$ 11,543
ALL at December 31, 2016	$ 1,105	$ 323	$ 224	$ 6,109	$ 1,893	$ 100	$ 1,321	$ 11,075
Charge-offs	(13)	—	—	(14)	(8)	(83)	—	(118)
Recoveries	2	6	—	17	111	30	—	166
Provision	(33)	(5)	15	146	7	45	245	420
ALL at September 30, 2017	$ 1,061	$ 324	$ 239	$ 6,258	$ 2,003	$ 92	$ 1,566	$ 11,543
ALL at June 30, 2016	$ 1,023	$ 319	$ 205	$ 5,940	$ 1,596	$ 97	$ 1,138	$ 10,318
Charge-offs	—	—	—	(776)	—	(42)	—	(818)
Recoveries	1	—	—	5	7	22	—	35
Provision	(3)	1	8	876	132	21	115	1,150
ALL at September 30, 2016	$ 1,021	$ 320	$ 213	$ 6,045	$ 1,735	$ 98	$ 1,253	$ 10,685
ALL at December 31, 2015	$ 989	$ 308	$ 194	$ 5,649	$ 1,519	$ 102	$ 1,325	$ 10,086
Charge-offs	(49)	—	—	(2,730)	(66)	(126)	—	(2,971)
Recoveries	34	—	—	18	129	64	—	245
Provision	47	12	19	3,108	153	58	(72)	3,325
ALL at September 30, 2016	$ 1,021	$ 320	$ 213	$ 6,045	$ 1,735	$ 98	$ 1,253	$ 10,685

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The following table presents, by class, loans that were evaluated for the ALL under the specific reserve (individually) and those that were evaluated under the general reserve (collectively) and the amount of the ALL established in each class as of September 30, 2017 and December 31, 2016:

(Dollars in thousands)	Residential Real Estate 1-4 Family First Liens	Junior Liens & Lines of Credit	Construction	Commercial Real Estate	Commercial	Consumer	Unallocated	Total
September 30, 2017								
Loans evaluated for ALL:								
Individually	$ 697	$ 53	$ 469	$ 11,180	$ 190	$ —	$ —	$ 12,589
Collectively	160,283	50,088	9,107	392,566	282,337	4,533	—	898,914
Total	$ 160,980	$ 50,141	$ 9,576	$ 403,746	$ 282,527	$ 4,533	$ —	$ 911,503
ALL established for loans evaluated:								
Individually	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Collectively	1,061	324	239	6,258	2,003	92	1,566	11,543
ALL at September 30, 2017	$ 1,061	$ 324	$ 239	$ 6,258	$ 2,003	$ 92	$ 1,566	$ 11,543
December 31, 2016								
Loans evaluated for ALL:								
Individually	$ 628	$ 52	$ 480	$ 13,523	$ —	$ —	$ —	$ 14,683
Collectively	167,942	50,161	8,495	377,061	270,826	4,705	—	879,190
Total	$ 168,570	$ 50,213	$ 8,975	$ 390,584	$ 270,826	$ 4,705	$ —	$ 893,873
ALL established for loans evaluated:								
Individually	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Collectively	1,105	323	224	6,109	1,893	100	1,321	11,075
ALL at December 31, 2016	$ 1,105	$ 323	$ 224	$ 6,109	$ 1,893	$ 100	$ 1,321	$ 11,075

The following table shows additional information about those loans considered to be impaired at September 30, 2017 and December 31, 2016:

(Dollars in thousands)	Impaired Loans With No Allowance		With Allowance		
	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance	Related Allowance
September 30, 2017					
Residential Real Estate 1-4 Family					
First liens	$ 1,142	$ 1,239	$ —	$ —	$ —
Junior liens and lines of credit	53	54	—	—	—
Total	1,195	1,293	—	—	—
Residential real estate - construction	469	531	—	—	—
Commercial real estate	11,180	11,645	—	—	—
Commercial	291	304	—	—	—
Total	$ 13,135	$ 13,773	$ —	$ —	$ —
December 31, 2016					
Residential Real Estate 1-4 Family					
First liens	$ 956	$ 1,030	$ —	$ —	$ —
Junior liens and lines of credit	85	93	—	—	—
Total	1,041	1,123	—	—	—
Residential real estate - construction	480	535	—	—	—
Commercial real estate	13,523	14,133		—	—
Commercial	23	35	—	—	—
Total	$ 15,067	$ 15,826	$ —	$ —	$ —

The following table shows the average of impaired loans and related interest income for the three and nine months ended September 30, 2017 and 2016:

(Dollars in thousands)	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Residential Real Estate 1-4 Family				
First liens	$ 1,157	$ 10	$ 1,152	$ 32
Junior liens and lines of credit	54	—	85	—
Total	1,211	10	1,237	32
Residential real estate - construction	471	—	475	—
Commercial real estate	11,218	109	12,216	328
Commercial	292	—	263	—
Total	$ 13,192	$ 119	$ 14,191	$ 360

(Dollars in thousands)	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Residential Real Estate 1-4 Family				
First liens	$ 1,196	$ 10	$ 1,262	$ 30
Junior liens and lines of credit	96	—	90	—
Total	1,292	10	1,352	30
Residential real estate - construction	548	—	554	—
Commercial real estate	13,889	118	17,871	478
Commercial	25	—	34	—
Total	$ 15,754	$ 128	$ 19,811	$ 508

The following table presents the aging of payments of the loan portfolio:

(Dollars in thousands)		Loans Past Due and Still Accruing					Total
	Current	30-59 Days	60-89 Days	90 Days+	Total	Non-Accrual	Loans
September 30, 2017							
Residential Real Estate 1-4 Family							
First liens	$ 160,383	$ 69	$ 93	$ 103	$ 265	$ 332	$ 160,980
Junior liens and lines of credit	49,964	87	37	—	124	53	50,141
Total	210,347	156	130	103	389	385	211,121
Residential real estate - construction	8,951	156	—	—	156	469	9,576
Commercial real estate	399,784	1,994	91	—	2,085	1,877	403,746
Commercial	282,038	198	—	—	198	291	282,527
Consumer	4,515	16	2	—	18	—	4,533
Total	$ 905,635	$ 2,520	$ 223	$ 103	$ 2,846	$ 3,022	$ 911,503

December 31, 2016							
Residential Real Estate 1-4 Family							
First liens	$ 166,689	$ 1,236	$ 414	$ —	$ 1,650	$ 231	$ 168,570
Junior liens and lines of credit	50,031	96	—	—	96	86	50,213
Total	216,720	1,332	414	—	1,746	317	218,783
Residential real estate - construction	8,495	—	—	—	—	480	8,975
Commercial real estate	384,658	858	447	665	1,970	3,956	390,584
Commercial	270,478	250	75	—	325	23	270,826
Consumer	4,672	30	3	—	33	—	4,705
Total	$ 885,023	$ 2,470	$ 939	$ 665	$ 4,074	$ 4,776	$ 893,873

The following table reports the internal credit rating for the loan portfolio. Consumer purpose loans are assigned a rating of either pass or substandard based on the performance status of the loans. Substandard consumer loans are comprised of loans 90 days or more past due and still accruing, and nonaccrual loans. Commercial purpose loans may be assigned any rating in accordance with the Bank's internal risk rating system.

(Dollars in thousands)	Pass (1-5)	Special Mention (6)	Substandard (7)	Doubtful (8)	Total
September 30, 2017					
Residential Real Estate 1-4 Family					
First liens	$ 158,175	$ 1,486	$ 1,319	$ —	$ 160,980
Junior liens and lines of credit	50,088	—	53	—	50,141
Total	208,263	1,486	1,372	—	211,121
Residential real estate - construction	8,361	—	1,215	—	9,576
Commercial real estate	392,367	685	10,694	—	403,746
Commercial	280,941	18	1,568	—	282,527
Consumer	4,533	—	—	—	4,533
Total	$ 894,465	$ 2,189	$ 14,849	$ —	$ 911,503

December 31, 2016					
Residential Real Estate 1-4 Family					
First liens	$ 167,199	$ 227	$ 1,144	$ —	$ 168,570
Junior liens and lines of credit	50,017	28	168	—	50,213
Total	217,216	255	1,312	—	218,783
Residential real estate - construction	8,220	—	755	—	8,975
Commercial real estate	377,283	—	13,301	—	390,584
Commercial	267,901	957	1,968	—	270,826
Consumer	4,705	—	—	—	4,705
Total	$ 875,325	$ 1,212	$ 17,336	$ —	$ 893,873

The following table presents information on the Bank's Troubled Debt Restructuring (TDR) loans:

(Dollars in thousands)	Troubled Debt Restructurings				Troubled Debt Restructurings That Have Defaulted on Modified Terms in the Last Twelve Months	
	Number of Contracts	Recorded Investment	Performing*	Nonperforming*	Number of Contracts	Recorded Investment
September 30, 2017						
Residential real estate - construction	1	$ 469	$ 469	$ —	—	$ —
Residential real estate	5	746	707	39	1	39
Commercial real estate	11	11,094	10,499	595	1	595
Total	17	$ 12,309	$ 11,675	$ 634	2	$ 634
December 31, 2016						
Residential real estate - construction	1	$ 480	$ 480	$ —	—	$ —
Residential real estate	5	875	724	151	1	151
Commercial real estate	11	12,064	10,814	1,250	1	1,250
Total	17	$ 13,419	$ 12,018	$ 1,401	2	$ 1,401

*The performing status is determined by the loan's compliance with the modified terms.

There were no new TDR loans during 2017.

The following table reports new TDR loans during 2016, concession granted and the recorded investment as of September 30, 2016:

	New During Period				
Nine Months Ended September 30, 2016	Number of Contracts	Pre-TDR Modification	After-TDR Modification	Recorded Investment	Concession
Commercial real estate	1	$ 525	$ 525	$ 515	multiple
Residential real estate	1	238	238	238	maturity
	2	$ 763	$ 763	$ 753	

Note 7. Other Real Estate Owned

Changes in other real estate owned during the nine months ended September 30, 2017 and 2016 were as follows:

	September 30,	
(Dollars in thousands)	2017	2016
Balance at beginning of the period	$ 4,915	$ 6,451
Additions	52	123
Proceeds from dispositions	(2,255)	(625)
(Loss) gain on sales, net	(23)	(31)
Valuation adjustment	(60)	(46)
Balance at the end of the period	$ 2,629	$ 5,872

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Note 8. Pension

The components of pension expense for the periods presented are as follows:

(Dollars in thousands)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Components of net periodic cost:				
Service cost	$ 80	$ 83	$ 237	$ 247
Interest cost	167	180	500	540
Expected return on plan assets	(268)	(290)	(804)	(873)
Settlement expense	—	225	—	225
Recognized net actuarial loss	137	120	411	351
Net period cost	$ 116	$ 318	$ 344	$ 490

The Bank expects its pension expense to decrease to approximately $459 thousand in 2017 compared to $922 thousand in 2016. This decrease is due to a pension settlement expense of approximately $564 thousand that was recorded in the second half of 2016, as a result of lump sum distributions. No pension contributions were made or are expected to be made in 2017.

Note 9. Fair Value Measurements and Fair Values of Financial Instruments

Management uses its best judgment in estimating the fair value of the Corporation's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Corporation could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective period-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates maybe different than the amounts reported at each year-end.

FASB ASC Topic 820, "Financial Instruments", requires disclosure of the fair value of financial assets and liabilities, including those financial assets and liabilities that are not measured and reported at fair value on a recurring and nonrecurring basis. The Corporation does not report any nonfinancial assets at fair value. FASB ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are as follows:

Level 1: Valuation is based on unadjusted, quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. There may be substantial differences in the assumptions used for securities within the same level. For example, prices for U.S. Agency securities have fewer assumptions and are closer to level 1 valuations than the private label mortgage backed securities that require more assumptions and are closer to level 3 valuations.

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Corporation's assumptions regarding what market participants would assume when pricing a financial instrument.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used to estimate the fair values of the Corporation's financial instruments at September 30, 2017 and December 31, 2016.

Cash and Cash Equivalents: For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment securities: The fair value of investment securities is determined in accordance with the methods described under FASB ASC Topic.

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Restricted stock: The carrying value of restricted stock approximates its fair value based on redemption provisions for the restricted stock.

Loans held for sale: The fair value of loans held for sale is determined by the price set between the Bank and the purchaser prior to origination. These loans are usually sold at par.

Net loans (including impaired loans): The fair value of fixed-rate loans is estimated for each major type of loan (e.g. real estate, commercial, industrial and agricultural and consumer) by discounting the future cash flows associated with such loans using rates currently offered for loans with similar terms to borrowers of comparable credit quality. The model considers scheduled principal maturities, repricing characteristics, prepayment assumptions and interest cash flows. The discount rates used are estimated based upon consideration of a number of factors including the treasury yield curve, expense and service charge factors. For variable rate loans that reprice frequently and have no significant change in credit quality, carrying values approximate the fair value.

Accrued Interest Receivable: The carrying amount is a reasonable estimate of fair value.

Deposits and Short-term borrowings: The fair value of demand deposits, savings accounts, and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-rate certificates of deposit is estimated by discounting the future cash flows using rates approximating those currently offered for certificates of deposit with similar remaining maturities. For short-term borrowings, the carrying value approximates a reasonable estimate of the fair value.

Accrued interest payable: The carrying amount is a reasonable estimate of fair value.

The following information regarding the fair value of the Corporation’s financial instruments should not be interpreted as an estimate of the fair value of the entire Corporation since a fair value calculation is only provided for a limited portion of the Corporation’s assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Corporation’s disclosures and those of other companies may not be meaningful.

The fair value of the Corporation's financial instruments are as follows:

(Dollars in thousands)	September 30, 2017 Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 71,361	$ 71,361	$ 71,361	$ —	$ —
Investment securities available for sale	132,322	132,322	347	131,975	—
Restricted stock	456	456	—	456	—
Loans held for sale	452	452	—	452	—
Net loans	899,960	900,811	—	—	900,811
Accrued interest receivable	3,360	3,360	—	3,360	—
Financial liabilities:					
Deposits	$ 1,033,148	$ 1,032,522	$ —	$ 1,032,522	$ —
Accrued interest payable	130	120	—	120	—