

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2019
or

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

For the transition period from _____ to _____
Commission File No.: 000-50171

Travelzoo

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

36-4415727

(I.R.S. employer
identification no.)

**590 Madison Avenue, 35th Floor
New York, New York**

(Address of principal executive offices)

10022

(Zip code)

Registrant's telephone number, including area code: (212) 484-4900

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Common Stock, \$0.01 Par Value

(Title of Class)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

NONE

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer	..	Accelerated filer	x
Non-accelerated filer	..	Smaller reporting company	x
		Emerging growth company	..

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

As of June 30, 2019, the aggregate market value of voting stock held by non-affiliates of the Registrant, based upon the closing sales price for the Registrant's common stock, as reported on the NASDAQ Global Select Market, was \$90,562,000.

The number of shares of the Registrant's common stock outstanding as of March 3, 2020 was 11,451,329 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its 2020 Annual Meeting of Stockholders are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13, and 14.

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PART I

Forward-Looking Statements

The information in this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based upon current expectations, assumptions, estimates and projections about Travelzoo and our industry. These forward-looking statements are subject to the many risks and uncertainties that exist in our operations and business environment that may cause actual results, performance or achievements of Travelzoo to be different from those expected or anticipated in the forward-looking statements. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as “may”, “will”, “should”, “estimates”, “predicts”, “potential”, “continue”, “strategy”, “believes”, “anticipates”, “plans”, “expects”, “intends”, and similar expressions are intended to identify forward-looking statements. Travelzoo's actual results and the timing of certain events could differ significantly from those anticipated in such forward-looking statements. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those discussed elsewhere in this report in Part I Item 1A and the risks discussed in our other Securities and Exchange Commission (“SEC”) filings. The forward-looking statements included in this report reflect the beliefs of our management on the date of this report. Travelzoo undertakes no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other circumstances occur in the future.

Item 1. Business

Overview

Travelzoo® provides our 30 million members insider deals and one-of-a-kind experiences personally reviewed by one of our deal experts around the globe. With 22 offices worldwide, we have our finger on the pulse of outstanding travel, entertainment, and lifestyle experiences. For over 20 years we have worked in partnership with more than 5,000 top travel suppliers—our long-standing relationships give Travelzoo members access to irresistible deals.

Travelzoo (“Travelzoo” or the “Company”) attracts a high-quality audience of travel and leisure enthusiasts across multiple digital platforms, including email, web, social media and mobile applications. Our email newsletters are published in 11 countries worldwide. Travelzoo’s website is visited by 8.3 million to 10.9 million unique visitors each month. We reach an audience of millions of Internet users each month via the Travelzoo Network, a network of websites that syndicate our deal content including The Los Angeles Times and The Chicago Tribune. We have over 4.2 million followers on Facebook and Twitter. Our mobile applications have been downloaded 6.6 million times.

Our publications and products include the *Travelzoo* website (travelzoo.com), the *Travelzoo* iPhone and Android apps, the *Travelzoo Top 20® email* newsletter, and the *Newsflash email* alert service. We operate the *Travelzoo Network*, a network of third-party websites that list deals published by Travelzoo. The *Travelzoo* website includes *Local Deals* and *Getaway* listings that allow our members to purchase vouchers for deals from local businesses such as spas, hotels and restaurants. We receive a percentage of the face value of the voucher from the local businesses.

More than 5,000 companies use our services, including Air France, Air New Zealand, Alaska Airlines, British Airways, Cathay Pacific Airways, Emirates, Etihad, Fairmont Hotels and Resorts, Gate 1 Travel, Hawaiian Airlines, Hilton Hotels & Resorts, Hyatt Corporation, InterContinental Hotels Group, Lufthansa, Key Tours International, Princess Cruises, Royal Caribbean, Singapore Airlines, Starwood Hotels & Resorts and United Airlines.

Our revenues are advertising revenues, consisting primarily of listing fees paid by travel, entertainment and local businesses to advertise their offers on Travelzoo's media properties. Listing fees are based on audience reach, placement, number of listings, number of impressions, number of click-throughs, number of referrals, or percentage of the face value of vouchers sold. Insertion orders are typically for periods between one month and twelve months and are not automatically renewed. Merchant agreements for *Local Deals* and *Getaway* advertisers are typically for twelve months and are not automatically renewed.

In April 2018, we entered into an agreement with weekengo gmbH (“WeekenGO”), a start-up company in Germany. WeekenGO uses new technology to promote vacation packages. We originally invested \$3.0 million in WeekenGO for a 25% ownership interest in April 2018. In April 2019, the Company invested an additional \$673,000 in WeekenGO and increased the Company's ownership interest to 26.6%. On February 11, 2020, Travelzoo signed an amended investment agreement with WeekenGO and agreed to invest an additional \$1.7 million to increase the Company's ownership interest to 33.7% if WeekenGO meets certain internal targets.

We have three operating segments based on geographic regions: Asia Pacific, Europe and North America. Asia Pacific consists of our operations in Australia, China, Hong Kong, Japan, and Southeast Asia. Europe consists of our operations in France, Germany, Spain, and the United Kingdom. North America consists of our operations in Canada and the U.S. For the year ended December 31, 2019, Asia Pacific operations were 6% of revenues, European operations were 33% of revenues and North American operations were 61% of our total revenues. Financial information with respect to our business segments and certain financial information about geographic areas appears in Note 10 to the accompanying consolidated financial statements.

Our principal business office is located at 590 Madison Avenue, 35th Floor, New York, New York 10022.

Ralph Bartel, who founded Travelzoo and who is a Director of the Company, is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro Capital Inc. ("Azzurro"). As of December 31, 2019, Azzurro is the Company's largest stockholder, holding approximately 47.8% of the Company's outstanding shares. Azzurro currently holds a proxy given to it by Holger Bartel that provides it with a total of 48.2% of the voting power.

As of December 31, 2019, there were 11,479,033 shares of common stock outstanding.

Travelzoo is listed on the NASDAQ Global Select Market under the symbol "TZOO."

Our Industry

Our mission is to provide our audience with the highest quality information about the best travel, entertainment and local deals. We believe there is a sizable travel and entertainment industry in which we participate in that provides an opportunity to find high quality deals for our members. According to the World Trade & Tourism Council, global Travel & Tourism produced \$8.8 trillion in value (10.4% of GDP) for the total global economy in 2018 and is expected to rise by 3.7% per year to \$13.1 trillion (11.5% of GDP) in 2029. Based upon this outlook for the travel industry, we believe that we are well positioned with our operations in Asia, Europe and North America to capture high quality deals for our members.

While our mission is to provide our audience with the highest quality information about the best travel, entertainment and local deals, our revenues are generated from advertising fees. According to Zenith Media (Publicis Media), global advertising spending is expected to grow 4.6% in 2020 and reach a total spending of \$652 billion by the end of 2020. Digital advertising is expected to grow 10% per year between 2017 and 2020. By 2020, digital advertising is forecast to account for 42% of global advertising spending. In addition, according to the Kelsey Group's (BIA/Kelsey) new U.S. Local Media Forecast 2018, BIA/Kelsey forecasts total local advertising spending to reach \$161 billion in 2020. Digital advertising spending continues to increase its share of total local advertising spending, growing from \$32 billion in 2014 to \$67 billion in 2020. We believe that traditional media outlets such as newspapers, television and radio continue to be another medium for travel, entertainment and local businesses to advertise their offers, though the percentage spent on advertising in these traditional media outlets is decreasing. In addition, the continued rise in smart phones has changed the business rules for online marketing, with the consumption of online advertising rapidly moving to mobile devices.

We believe that several factors are causing and will continue to cause travel, entertainment and local businesses to increase their spending on Internet and mobile advertising of offers:

The Internet Is Consumers' Preferred Information Source. Market research shows that the Internet has become consumers' preferred information source for travel.

Benefits of Internet Advertising vs. Print, TV and Radio Advertising. Internet advertising provides advertisers advantages compared to traditional advertising. These advantages include real-time listings, real-time updates, and performance tracking. See "Benefits to Travel, Entertainment and Local Businesses" below.

New Advertising Opportunities. The Internet allows advertisers to advertise their sales and specials in a fast, flexible, and cost-effective manner that has not been possible before.

Suppliers Selling Directly. We believe that many travel suppliers prefer to sell directly to consumers through suppliers' websites versus selling through travel agents. Internet advertising attracts consumers to suppliers' websites.

Growth of Mobile Advertising. Mobile advertising extends our products and services by providing mobile-specific features to mobile device users. As advertisers continue to shift budgets to mobile advertising, we continue to focus on developing easy-to-use mobile applications to help advertisers extend their reach, help create revenue opportunities for our advertisers, and deliver relevant and useful ads to users on the go. We continue to invest in improving users' access to our services through such devices.

Challenges Travel, Entertainment and Local Businesses Face and Limitations of Newspaper, TV and Radio Advertising

We believe that travel, entertainment and local businesses often face the challenge of being able to effectively and quickly market and sell their excess inventory (i.e. airline seats, hotel rooms, cruise cabins, theater seats, spa appointments or restaurant seats that are likely to be unfilled). The success of marketing excess inventory can have a substantial impact on a company's profitability. Almost all costs of these services are fixed. That is, the costs do not vary significantly with sales. A relatively small amount of unsold inventory can have a significant impact on the profitability of a company.

We believe that travel, entertainment and local businesses need a fast, flexible, and cost-effective solution for marketing excess inventory. The solution must be fast, because services are a quickly expiring commodity. The period between the time when a company realizes that there is excess inventory and the time when the service has become worthless is very short. The solution must be flexible, because the demand for excess inventory is difficult to forecast. It is difficult for travel, entertainment and local businesses to price excess inventory and to forecast the marketing effort needed to sell excess inventory. The marketing must be cost-effective, because excess inventory is often sold at highly discounted prices, which lowers margins.

We believe that newspaper, TV and radio advertising, with respect to advertising excess inventory, suffers from a number of limitations which do not apply to the Internet:

- typically, ads must be submitted 2 to 5 days prior to the publication or airing date, which makes it difficult to advertise last-minute inventory;
- once an ad is published, it cannot be updated or deleted when an offer is sold out;
- once an ad is published, the company cannot change a price or offer;
- in many markets, the small number of newspapers, television companies, radio stations and other print media reduces competition, resulting in high rates for traditional advertising;
- offline advertising does not allow for detailed performance tracking; and
- creative content can be very expensive to develop.

Our Products and Services

We provide airlines, hotels, cruise lines, vacation packagers, other travel suppliers, entertainment and local businesses with a fast, flexible, and cost-effective way to reach millions of Internet users. Our publications include the *Travelzoo* website, the *Travelzoo Top 20 email* newsletter, the *Newsflash* email alert service, and the *Local Deals* and *Getaway* email alert services. We operate the *Travelzoo Network*, a network of third-party websites that list deals published by Travelzoo. While our products provide advertising opportunities for travel, entertainment and local businesses, they also provide Internet users with a free source of information on current sales and specials from thousands of travel, entertainment and local businesses.

As travel, entertainment and local businesses increasingly utilize the Internet to promote their offers, we believe that our products will enable them to take advantage of the lower cost and real-time communication enabled by the Internet. Our listing management software allows our advertisers to add, update, and delete special offer listings on a real-time basis. Our software also provides our advertisers with real-time performance tracking, enabling them to optimize their marketing campaigns. Mobile advertising extends our products and services by providing mobile-specific features to mobile device users. We are focused on developing easy-to-use mobile applications to help advertisers extend their reach, help create revenue opportunities for our customers, and deliver relevant and useful ads to users on the go. We continue to invest in improving users' access to our services through such devices. In addition, we continue to develop our hotel booking platform, which enables our users to more easily book hotel stays using our hotel deals presented on our website and mobile devices.

The following table presents an overview of our products:

Product	Content	Publication Schedule	Reach/Usage*	Advertiser Benefits	Consumer Benefits
<i>Travelzoo website</i>	Website available in the U.S., Australia, Canada, China, France, Hong Kong, Germany, Japan, Spain, and the U.K. listing thousands of outstanding sales and specials from more than 5,000 travel, entertainment and local businesses	24/7	8.3 million to 10.9 million unique visitors per month	Broad reach, sustained exposure, targeted placements by destination and travel segment	24/7 access to deals, ability to search and browse by destination or keyword
<i>Travelzoo Top 20</i>	Popular email newsletter listing 20 of the week's most outstanding deals	Weekly	33.0 million members	Mass "push" advertising vehicle to quickly stimulate incremental travel and entertainment purchases	Weekly access to 20 outstanding, handpicked deals chosen by our deal experts from among thousands
<i>Newsflash</i>	Regionally-targeted email alert service with a single time-sensitive and newsworthy travel and entertainment offer	Within two hours of an offer being identified	26.0 million members	Regional targeting, 100% share of voice for advertiser, flexible publication schedule	Breaking news offers delivered just-in-time
<i>Local Deals and Getaway</i>	Locally-targeted email alert service with a single time-sensitive and newsworthy offer from local merchants such as spas, hotels and restaurants	Twice per week in active markets	160 local markets	Local targeting by zip code, 100% share of voice for the local businesses, flexible publication schedule	Breaking news offers delivered just-in-time
<i>Travelzoo Network</i>	A network of third-party websites that list outstanding deals published by Travelzoo	24/7	Over 400 third-party websites	Drives qualified users with substantial distribution beyond the Travelzoo audience	Contextually relevant travel deals that have been handpicked and professionally reviewed by our deal experts
<i>Travelzoo mobile applications</i>	iPhone and Android applications that allow users to discover the best travel, entertainment and local deals.	On-demand	6.6 million downloads	Allows travel, entertainment and local deals advertisers to reach our audience that is on the go.	24/7 access to travel, entertainment and local deals for consumers that are on the go.

* For the *Travelzoo* website, reach information is based on data from Google Analytics. For *Top 20*, *Newsflash*, *Local Deals* and *Getaway*, *Travelzoo Network* and *Travelzoo* mobile applications, reach/usage information is based on internal Travelzoo statistics as of December 31, 2019.

Our Audience

We attract a high-quality audience of travel and leisure enthusiasts across multiple digital platforms, including email, web, social media and mobile apps. We inform our audience about travel, entertainment and local deals available at over 5,000 companies. Our email newsletters are published in 11 countries worldwide. Travelzoo's website is visited by 8.3 million to 10.9 million unique visitors each month. We reach an audience of millions of Internet users each month via the Travelzoo Network, a network of websites that syndicate our deal content, including The Los Angeles Times and The Chicago Tribune. We have over 4.2 million followers on Facebook and Twitter. Our mobile applications have been downloaded 6.6 million times.

Benefits to Travel, Entertainment and Local Businesses

Our advertisers benefit from accessing our large high-quality audience. Due to the nature of our content, we attract an older, wealthier demographic who have a strong interest in travel and leisure.

Key features of our solution for travel and entertainment companies include:

- *Real-Time Listings of Special Offers.* Our technology allows travel and entertainment companies to advertise special offers on a real-time basis.
- *Real-Time Updates.* Our technology allows travel and entertainment companies to update their listings on a real-time basis.
- *Real-Time Performance Reports.* We provide travel and entertainment companies with real-time tracking of the performance of their advertising campaigns. Our solution enables travel and entertainment companies to optimize their campaigns by removing or updating unsuccessful listings and further promote successful listings.
- *Access to Millions of Consumers.* We provide travel and entertainment companies fast access to over 30 million travel shoppers.
- *Global Reach.* We offer access to Internet users in Australia, Canada, China, France, Germany, Hong Kong, Japan, Southeast Asia, Spain, the U.K and U.S.

Key features of our solution for local businesses include:

- *Real-Time Listings of Special Offers.* Our technology allows local businesses to advertise special offers on a real-time basis.
- *Real-Time Performance Reports.* We provide local businesses with real-time tracking of the performance of their advertising campaigns.
- *Access to Local Consumers.* Travelzoo members submit their zip code to Travelzoo when they join Travelzoo. As a result, we are able to send *Local Deals* to members who live or work near the local businesses.

Benefits to Consumers

The Travelzoo website, Travelzoo Top 20 email newsletter, Newsflash, Local Deals, Getaway, and the Travelzoo Network, provide consumers information on current offers at no cost to the consumer. Key features of our products include:

- *Aggregation of Offers from Many Companies.* The Travelzoo website and our Travelzoo Top 20 email newsletter aggregate information on current offers from more than 5,000 travel, entertainment and local businesses. This saves the consumer time when searching for travel, entertainment and local deals, sales and specials.
- *Current Information.* Compared to newspaper, TV or radio advertisements, we provide consumers more current information, since our technology enables travel, entertainment and local businesses to update their listings on a real-time basis.
- *Reliable Information.* We operate a Test Booking Center to check the availability of travel, entertainment and local deals before publishing.

Growth Strategy

Our growth strategy relies on building a travel and lifestyle brand with a large, high-quality user base and offering our users products that keep pace with consumer preference and technology, such as the trend towards mobile usage by consumers.

- *Building a travel and lifestyle brand with a large, high-quality user base.* We believe that it is essential to establish a strong brand with a large, high-quality user base within the travel, entertainment and local industries we serve. We currently utilize online marketing and direct marketing to promote our brand to consumers. We utilize sponsorships at industry conferences and public relations to promote our brand. We believe that high-quality content attracts a high-quality user base.
- *Offering products that keep pace with consumer preference and technology.* We believe it is important to grow engagement of our user base, by offering products that deliver high-quality deals with exceptional value and expanding our product offering over time to address frequent travel and leisure needs, including the desire to access our content via mobile devices and to search and book hotels via a hotel booking platform.

Advertisers

As of December 31, 2019, our advertiser base included more than 5,000 travel, entertainment and local businesses, including airlines, hotels, cruise lines, vacations packagers, tour operators, destinations, car rental companies, travel agents, theater and performing arts groups, restaurants, spas, and activity companies. Some of our advertisers are:

Air France	Hyatt Corporation
Air New Zealand	InterContinental Hotels Group
Alaska Airlines	Lion World Travel
British Airways	Lufthansa
Cathay Pacific Airways	Nexus Holidays
Emirates	Princess Cruises
Etihad	Royal Caribbean
Fairmont Hotels and Resorts	Singapore Airlines
Gate 1 Travel	Starwood Hotels & Resorts Worldwide
Hawaiian Airlines	Tourism Australia and Tourism Ireland
Hilton Hotels & Resorts	United Airlines

As discussed in Note 10 to the accompanying consolidated financial statements, we did not have any advertisers that accounted for 10% or more of our total revenues during the years ended December 31, 2019 and 2018. The agreements with certain advertisers are in the form of multiple insertion orders and merchant agreements from groups of entities under common control.

In 2019, 6% of our total revenues were generated from our Asia Pacific operations, 33% of our total revenues were generated from our European operations and 61% of our total revenues were generated from our North American operations. See Note 10 to the accompanying consolidated financial statements.

Sales and Marketing

As of December 31, 2019, our advertising sales force and sales support staff consisted of 136 employees worldwide.

We currently utilize online marketing and direct marketing to promote our brand to consumers. In addition, we utilize an online marketing program to acquire new members for our email publications. We believe that we build brand awareness by product excellence that is promoted by word-of-mouth. We utilize sponsorships at industry conferences and public relations to promote our brands.

Technology

We have designed our technology to serve a large volume of Web traffic and send a large volume of emails in an efficient and scalable manner.

We co-locate our production servers with Equinix, Inc. ("Equinix"), a global provider of hosting, network, and application services. Equinix's facilities include features such as power redundancy, multiple egress and peering to other ISPs, fire suppression and access to our own separate physical space. We believe our arrangements with Equinix will allow us to grow without being limited by our own physical and technological capacity, and will also provide us with sufficient bandwidth for our anticipated needs. Because of the design of our websites, our users are not required to download or upload large files from or to our websites, which allows us to continue increasing the number of our visitors and page views without adversely affecting our performance or requiring us to make significant additional capital expenditures.

Competition

We compete for advertising dollars with large Internet portal sites such as MSN and Yahoo! that offer listings or other advertising opportunities to travel, entertainment and local businesses. We compete with search engines like Google and Bing that offer pay-per-click listings. We compete with travel meta-search engines like Kayak and online travel and entertainment deal publishers. We compete with large online travel agencies like Expedia, Priceline and TripAdvisor that also offer advertising placements, airline travel comparisons, hotel booking and capture consumer interest. We compete with companies like Groupon and Gilt City that sell vouchers for deals from local businesses such as spas, hotels, restaurants and activity companies. We expect to face increased competition from other Internet and technology-based businesses such as Yelp which has launched initiatives which are directly competitive to our *Local Deals* and *Getaway* products. In addition, we compete with newspapers, magazines and other traditional media companies that operate websites which provide advertising opportunities.

We expect to face additional competition as other established and emerging companies, including print media companies, enter our market. We believe that the primary competitive factors are price, performance and audience quality.

Many of our current and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources and larger advertiser bases than we do. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships to expand their businesses or to offer more comprehensive solutions.

New technologies could increase the competitive pressures that we face. The development of competing technologies by market participants or the emergence of new industry standards may adversely affect our competitive position. Competition could result in reduced margins on our services, loss of market share or less use of our products by our advertisers and consumers. If we are not able to compete effectively with current or future competitors as a result of these and other factors, our business could be materially adversely affected.

Government Regulation and Legal Uncertainties

There are increasing numbers of laws and regulations pertaining to the Internet, including laws and regulations relating to user privacy, liability for information retrieved from or transmitted over the Internet, online content regulation, and domain name registration. Moreover, the applicability to the Internet of existing laws governing issues such as intellectual property ownership and infringement, copyright, patent, trademark, trade secret, obscenity, libel and personal privacy is uncertain and developing.

Privacy Concerns. We are subject to a number of privacy and similar laws and regulations in the countries in which we operate and these laws and regulations will likely continue to evolve over time, both through regulatory and legislative action and judicial decisions. The European Union adopted the General Data Protection Regulation ("GDPR"), which became effective in May 2018 and has resulted in greater compliance burdens for companies, including us, with users in Europe. Additionally, the California Consumer Privacy Act was passed and creates new data privacy rights for users, which became effective in January 2020. Complying with these varying national requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business and violations of privacy-related laws can result in significant penalties. We post on our websites our privacy policies and practices concerning the collection, use and disclosure of user data. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any regulatory requirements or orders or other federal, state or international privacy laws and regulations could result in proceedings or actions against us by governmental entities or others, subject us to penalties and negative publicity, require us to change our business practices, and increase our costs and adversely affect our business.

Anti-Spam Legislation. The CAN-SPAM Act, a federal anti-spam law, pre-empts various state anti-spam laws and establishes a single standard for email marketing and customer communications. We believe that this law, on an overall basis, benefits our business as we do not use spam techniques or practices and may benefit now that others are prohibited from doing so. We are also subject to anti-spam laws in the various jurisdictions that we operate, including Canada's Anti-Spam Legislation ("CASL"). We continually review our practices to ensure our continued compliance with these regulations.

Domain Names. Domain names are the user's Internet "addresses." The current system for registering, allocating and managing domain names has been the subject of litigation and of proposed regulatory reform. We have registered travelzoo.com, travelzoo.ca, travelzoo.co.jp, travelzoo.com.au, travelzoo.com.tw, travelzoo.co.uk, travelzoo.de, travelzoo.fr, weekend.com, and weekends.com, among other domain names, and have registered "Travelzoo" as a trademark in the United States, Canada, and the European Union. Because of these protections, it is unlikely, yet possible, that third parties may bring claims for infringement against us for the use of our domain name and trademark. In the event such claims are successful, we could lose the ability to use our domain names. There can be no assurance that our domain names will not lose their value, or that we will not have to obtain entirely new domain names in addition to or in lieu of our current domain names if changes in overall Internet domain name rules result in a restructuring in the current system of using domain names which include ".com," ".net," ".gov," ".edu" and other extensions.

Jurisdictions. Due to the global nature of the Internet, it is possible that, although our transmissions over the Internet originate primarily in California, the governments of other states and foreign countries might attempt to regulate our business activities. In addition, because our service is available over the Internet in multiple states and foreign countries, these jurisdictions may require us to qualify to do business as a foreign corporation in each of these states or foreign countries, which could subject us to additional taxes and other regulations.

Intellectual Property

Our success depends to a significant degree upon the protection of our brand names, including *Travelzoo* and *Top 20*. If we were unable to protect the *Travelzoo* and *Top 20* brand names, our business could be materially adversely affected. We rely upon a combination of copyright, trade secret and trademark laws to protect our intellectual property rights. We have registered the *Travelzoo* and *Top 20* trademarks, among others, with the United States Patent and Trademark Office. We have registered

the *Travelzoo* and *Travelzoo Top 20* trademarks with the Office for Harmonization in the Internal Market of the European Community. We have registered the *Travelzoo* trademark in Australia, Canada, China, Hong Kong, Japan, South Korea, and Taiwan. The steps we have taken to protect our proprietary rights, however, may not be adequate to deter misappropriation of proprietary information.

We may not be able to detect unauthorized use of our proprietary information or take appropriate steps to enforce our intellectual property rights. In addition, the validity, enforceability and scope of protection of intellectual property in Internet-related industries are uncertain and still evolving. The laws of other countries in which we may market our services in the future are uncertain and may afford little or no effective protection of our intellectual property.

Employees

As of December 31, 2019, we had 418 employees in Asia Pacific, Europe and North America. None of our employees are represented under collective bargaining agreements. We consider our relations with our employees to be good.

Internet Access to Other Information

We make available free of charge, on or through our website (ir.travelzoo.com), annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information included on our website does not constitute part of this report.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below, any one or more of which could, directly or indirectly, cause the Company's actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any or all of the risks listed below, as well as other variables affecting our operating results, in whole or in part, could materially and adversely affect our business or financial condition, which could cause the market price of our stock to decline or cause substantial volatility in our stock price, in which event the value of your common stock could decline. You should also keep these risk factors in mind when you read forward-looking statements.

Risks Related to Our Financial Condition and Business Model

We cannot assure you that we will be profitable.

In the years ended December 31, 2019 and 2018, we generated net income of \$4.2 million and \$4.7 million, respectively. Although we were profitable in 2019 and 2018, there is no assurance that we will continue to be profitable in the future. We forecast our future expense levels based on our operating plans and our estimates of future revenues. We may find it necessary to significantly accelerate expenditures relating to our sales, hiring and/or marketing efforts or otherwise increase our financial commitment to creating and maintaining brand awareness among Internet users and advertisers. We may also expand and upgrade our technology and make investments in our products as well as develop new products that may impact our profitability. If our revenues grow at a slower rate than we anticipate or decline, or if our spending levels exceed our expectations or cannot be adjusted to reflect slower revenue growth, we may not generate sufficient revenues to be profitable. Any of these developments could result in a significant decrease in the trading price of our common stock.

Fluctuations in our operating results may negatively impact our stock price.

Our quarterly and annual operating results may fluctuate significantly in the future due to a variety of factors that could affect our revenues or our expenses in any particular period. You should not rely on quarter-to-quarter comparisons of our results of operations as an indication of future performance. Factors that may affect our quarterly results include:

- mismatches between resource allocation and client demand due to difficulties in predicting client demand in a new market;
- changes in general economic conditions (perceived or actual) that could impair consumer spending and adversely affect travel demand;

- the magnitude and timing of marketing initiatives, including our acquisition of new members and our expansion efforts in other regions;
- the introduction, development, timing, competitive pricing and market acceptance of our products and services and those of our competitors;
- our ability to attract, hire and retain key personnel;
- our ability to maintain merchant and member satisfaction such that we are able to continue to attract high quality merchants, partners and clients;
- our ability to manage our planned growth;
- our ability to encourage our existing members to engage with our website and email products and to convert them to revenue-generating users;
- our ability to attract users to our websites, which may be adversely affected by the audience shift to mobile devices;
- technical difficulties or system downtime affecting the Internet generally or the operation of our products and services specifically; and
- volatility of our operating results in new markets.

We may significantly increase our operating expenses related to advertising campaigns, as well as our hotel booking platform or travel package products, for a certain period if we see a unique opportunity for a brand marketing campaign, if we find it necessary to respond to increased brand marketing by a competitor, or if we decide to accelerate our acquisition of new members or engagement of existing members.

If revenues fall below our expectations in any quarter and we are unable to quickly reduce our operating expenses in response, our operating results would be lower than expected and our stock price may fall.

Our expansion of our product offerings may result in additional costs that exceed revenue and may trigger additional stock volatility.

We have been investing in packaging technology which may result in an increase in costs to further develop our product offerings in the near-term and an increase in cost structure in the long-term, which may be in excess of incremental revenue. If our expanded travel product offerings, such as package offers, are not embraced by our users or our advertising partners, or if we are unsuccessful in our efforts to monetize these initiatives, our business and financial results could be adversely affected. To the extent that our rates on our hotel booking platform or our package offers are not competitive (i.e., versus the websites of other online travel companies or hotel company websites), we may not be able to attract members. If we cannot attract members to our travel product offerings to make bookings, our financial results could be adversely affected. In addition, the hotel booking platform will be sensitive to fluctuations in hotel supply, occupancy and average daily rates and a fluctuation in any of these factors could negatively impact our hotel booking revenue. Furthermore, hotels may offer products and services on more favorable terms to consumers who transact directly with them. For example, certain hotel chains have launched advertising campaigns expressly designed to drive consumer traffic directly to their own websites. We can give no assurances that the hotel booking platform or investment in packaging technology and expansion of package offers will yield the benefits we expect and will not result in additional costs or have adverse impacts on our business.

Our Local Deals business may be adversely impacted by competition and decreased consumer demand for vouchers.

Our *Local Deals* and *Getaways* products include the sale of vouchers directly to consumers to advertise promotional offers provided by merchants.

For example, a consumer could buy a voucher for \$99 for a dinner for two at a merchant's restaurant that would normally be valued at \$199, representing a promotional value of \$100 to the consumer. This format may require additional investments to maintain and grow the business including the hiring of additional sales force and additional spend on customer service, marketing, technology tracking systems and payment processing. The rate at which our existing customers purchase vouchers has declined, and may continue to decline in certain regions, given, among other things, increased competition in the marketplace and the decrease in demand of consumers for voucher deals. Historically, our customers often purchased a voucher when they received our emails, even though they may not have intended to use the voucher in the near term. The growth in recent periods of competition and the marketplaces of deals have enabled customers to wait until they are ready to use the

related vouchers before making purchases. This shift in purchasing behavior may adversely impact revenues. While we are continually evolving our strategy to address the changing market dynamics, we may not always be successful in doing so.

Our business could be negatively affected by changes in search engine algorithms and dynamics or other traffic-generating arrangements.

We utilize Internet search engines such as Google, principally through the purchase of travel-related keywords and through organic search, to generate additional traffic to our websites. The number of users we attract from search engines to our websites is due in large part to how and where information from, and links to, our websites are displayed on search engine results pages. The display, including rankings, of unpaid search results can be affected by a number of factors, many of which are not in our control and may change frequently. Search engines, including Google, frequently update and change the logic that determines the placement and display of results of a user's search, such that the placement or cost of links to our websites can be negatively affected. In addition, a significant amount of traffic is directed to our websites through our participation in pay-per-click and display advertising campaigns on search engines, including Google, travel metasearch engines, including Kayak, and Internet media properties, including TripAdvisor. Pricing and operating dynamics for these traffic sources can experience rapid change, both technically and competitively. Moreover, a search or metasearch engine could, for competitive or other purposes, alter its search algorithms or display of results causing a website to place lower in search query results. In June 2017 and March 2019, the European Commission fined Google 2.4 billion Euros and 1.5 billion Euros, respectively, for anti-competitive behavior relating to its comparison-shopping service and online search advertising services. If Google again changes its algorithms or results and these changes negatively affect the search engine ranking, paid and unpaid, of our websites and those of our third-party distribution partners, our business and financial performance would be adversely affected, potentially to a material extent. If Google or other search or metasearch companies continue to pursue these or similar strategies, which is out of our control, or we do not successfully manage our paid and unpaid search strategies, we could face a significant decrease in traffic to our websites and/or increased costs related to replacing unpaid traffic with paid traffic.

Additionally, an area of increased scrutiny, particularly in Europe, involves contractual search term bidding restrictions where one contracting party agrees not to bid on certain key search terms related to the other party (e.g., such other party's name). In some of our contracts we or the other party have agreed to bidding restrictions. If bidding restrictions are held to be illegal or otherwise unenforceable, our performance marketing costs may increase if bidding on affected key words (especially those related to us) becomes more expensive, which could adversely affect our performance marketing efficiency and results of operations.

Trends in consumer adoption and use of mobile devices create new challenges.

Continued widespread adoption of mobile devices, such as the iPhone and Android-enabled smart phones, and tablets such as the iPad and Surface, coupled with the improved web browsing functionality and development of thousands of useful "apps" available on these devices, has been driving substantial traffic and commerce activity to mobile platforms. We have experienced a significant shift of business to mobile platforms and our advertising partners have also seen a rapid shift of traffic to mobile platforms. Our major competitors and certain new market entrants are offering mobile applications for travel products and other functionality, including proprietary last-minute discounts for hotel bookings and travel concierge services. Advertising and distribution opportunities may be more limited on mobile devices given their smaller screen sizes. The gross profit earned on a mobile transaction may be less than that earned from a typical desktop transaction due to different target consumers and different consumer purchasing patterns. For example, hotel reservations made on a mobile device typically are for shorter lengths of stay and are not made as far in advance as hotel reservations made on a desktop. Further, given the device sizes and technical limitations of tablets and smartphones, mobile consumers may not be willing to download multiple applications from multiple travel service providers and instead prefer to use one or a limited number of applications for their mobile travel activity. As a result, the consumer experience with mobile applications, as well as brand recognition and loyalty, are likely to become increasingly important. We also rely on application marketplaces, or app stores, to drive downloads of our applications. In the future, marketplace operators may make changes to their marketplaces that make access to our products more difficult.

We continue to make progress creating mobile offerings which have received strong reviews and have shown solid download trends. We believe that mobile bookings continue to present an opportunity for growth. Further development of our mobile offerings is necessary to maintain and grow our business as consumers increasingly turn to mobile devices instead of a personal computer and to mobile applications instead of a web browser. Further, many consumers use a mobile device based web browser instead of an application. As a result, it is increasingly important for us to develop and maintain effective mobile websites optimized for mobile devices to provide customers with appealing easy-to-use mobile website functionality. If we are unable to continue to rapidly innovate and create new, user-friendly and differentiated mobile offerings and efficiently and effectively advertise and distribute on these platforms, or if our mobile applications are not downloaded and used by travel consumers, we could lose market share to existing competitors or new entrants and our future growth and results of operations could be adversely affected.

We may have exposure to additional tax liabilities.

As a global company, we are subject to income taxes as well as non-income based tax, in both the U.S. and various foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities. Although we believe that our tax estimates are reasonable, there is no assurance that the final determination of tax audits or tax disputes will not be different from what is reflected in our historical income tax provisions and accruals. Changes in tax laws or tax rulings may have a significantly adverse impact on our effective tax rate. The 2017 Tax Cut and Jobs Act (“Tax Act”) included significant changes to the U.S. corporate income tax system including: a federal corporate rate reduction from 35% to 21%; limitations on the deductibility of interest expense and executive compensation; creation of new minimum taxes such as the base erosion anti-abuse tax (“BEAT”) and Global Intangible Low Taxed Income (“GILTI”) tax; and the transition of U.S. international taxation from a worldwide tax system to a modified territorial tax system, which will result in a one time U.S. tax liability on those earnings which have not previously been repatriated to the U.S. (the “Transition Tax”). The interpretation and implementation of the Tax Act and regulations, rules or guidance that have or may be adopted under, or result from, the Tax Act could have a material impact on our business.

A number of European Union member states have taken steps to unilaterally introduce a services tax. In July 2019, France passed legislation that introduced a 3% digital services tax, which is retroactively applicable as of January 1, 2019. Several other countries are also considering adopting digital services taxes. For example, the United Kingdom has proposed legislation to implement digital services tax that, if enacted, would become effective in 2020 and would impose a 2% tax on revenue earned by larger companies from United Kingdom users of digital services. Similarly, Spain submitted a digital services tax bill to its parliament for approval in January 2019 that would tax digital services at 3%. Many questions remain as to the enactment, form and application of these digital services taxes. For example, it is not clear whether digital services taxes can be deducted for income tax purposes or whether there is potential for double taxation on the same transaction. The interpretation and implementation of the various digital services taxes (especially if there is inconsistency in the application of these taxes across tax jurisdictions) could have a materially adverse impact on our business, results of operations and cash flows.

We are also subject to non-income based taxes, such as value-added, payroll, sales, use, net worth, property and goods and services taxes, in both the U.S. and various foreign jurisdictions.

From time to time, the Company is under audit by tax authorities with respect to these non-income based taxes and may have exposure to additional non-income based tax liabilities. These examinations may lead to ordinary course adjustments or proposed adjustments to its taxes or its net operating income or may result in recognition of previously unrecognized tax benefits upon completion of the examination.

Adverse application of state and local tax laws could have an adverse effect on our business and results of operation.

Our expansion of our product offerings may subject us to state and local tax laws and result in additional tax liabilities. A number of jurisdictions in the U.S. have initiated lawsuits against other online travel companies, related to, among other things, the payment of hotel occupancy and other taxes (i.e., state and local sales tax). In addition, a number of municipalities have initiated audit proceedings, issued proposed tax assessments or started inquiries relating to the payment of hotel occupancy and other taxes.

Given our hotel booking platform and packaging technology consists of an agency model whereby we will facilitate reservations on behalf of a hotel or other supplier, the payment of hotel occupancy taxes and other taxes should be the responsibility of the applicable merchant. The intended business practice for our hotel booking platform and packaging technology will primarily be for the merchant or hotel or our packaging partner to be responsible for remitting applicable taxes to the various tax authorities. Nevertheless, to the extent that any tax authority succeeds in asserting that we have a tax collection responsibility, or we determine that we have one, with respect to future transactions, we may collect any such additional tax obligation from our customers, which would have the effect of increasing the cost of accommodation reservations to our customers and, consequently, could make our hotel and packaging services less competitive (i.e., versus the websites of other online travel companies or hotel company websites) and reduce reservation transactions. Either step could have a material adverse effect on our business and results of operations. We will continue to assess the risks of the potential financial impact of additional tax exposure.

Our business model may not be adaptable to a changing market.

Our current revenue model depends primarily on advertising fees paid by travel and entertainment companies and still relies significantly on email communications with our members. If current clients/merchant partners decide not to continue advertising their offers with us and we are unable to replace them with new clients/merchant partners, our business may be adversely affected. To be successful, we must provide online marketing solutions that achieve broad market acceptance by travel and entertainment companies. In addition, we must attract sufficient Internet users with attractive demographic characteristics to our products. It is possible that we will be required to further adapt our business model and products in response to changes in the online advertising market or if our current business model is not successful. For example, the trend toward mobile online traffic will require us to adapt our product offering to facilitate consumers' use of our products. If we do not adapt to this trend fully or quickly enough, we may lose advertising revenue as consumer usage may decline from our non-mobile traffic. If we are not able to anticipate changes in the online advertising market or if our business model is not successful, our business could be materially adversely affected.

If we fail to retain existing advertisers or add new advertisers, our revenue and business will be harmed.

We depend on our ability to attract and retain advertisers (hotels, spas, restaurants, tour operators, vacation packagers, airlines, etc.) that are prepared to offer products or services on compelling terms to our members. We do not have long-term arrangements to guarantee the availability of deals that offer attractive quality, value and variety to consumers or favorable payment terms to us. We must continue to attract and retain advertisers in order to increase revenue and maintain profitability. If new advertisers do not find our marketing and promotional services effective, or if existing advertisers do not believe that utilizing our products provides them with a long-term increase in customers, revenue or profit, they may stop making offers through our marketplace. In addition, we may experience attrition in our advertisers in the ordinary course of business resulting from several factors, including losses to competitors and advertiser closures or bankruptcies/insolvencies. We can also experience a decline in advertisers making offers in certain destinations due to natural disasters, such as hurricanes, earthquakes, fires, floods and volcanic activity. If we are unable to attract new advertisers in numbers sufficient to grow our business, or if too many advertisers are unwilling to offer products or services with compelling terms to our members or offer favorable payment terms to us, we may sell less advertising, and our operating results will be adversely affected. For example, we may lose advertisers due to market conditions or performance, such as our recent loss of revenue from certain online booking engines, airlines and vacation packagers. We may not add enough additional revenue, such as hotel revenue from Getaways or the hotel booking platform, in order to replace the lost revenue. Furthermore, the new revenue may cost more to generate compared to the costs that the lost revenue required to generate, thereby adversely impacting our operating results.

Our existing advertisers may shift from one advertising service to another, which may adversely affect our revenue.

Existing advertisers may shift from one advertising service (e.g. *Top 20*) to another (e.g. *Local Deals*, *Getaways* or the hotel booking platform). These shifts between advertising services by advertisers could result in no incremental revenue or less revenue than in previous periods depending on the amount purchased by the advertisers, and in particular with *Local Deals*, *Getaways* and hotel booking platform, depending on how many vouchers are purchased by members and how many hotel bookings are made. In addition, there may continue to be a shift from our existing hotel revenue to commission-based revenue, which may result in lower revenue depending on volume of hotel bookings.

An increase in our refund rates related to our Local Deals and Getaways could reduce our liquidity and profitability.

We provide refunds related to our *Local Deals* and *Getaways* voucher sales. As we increase our revenue, our refund rates may exceed our historical levels. A downturn in general economic conditions may also increase our refund rates. An increase in our refund rates could significantly reduce our liquidity and profitability.

As we do not have control over our merchants and the quality of products or services they deliver, we rely on a combination of our historical experience with our merchants over time and the type of refunds provided for development of our estimate for refund claims. Our actual level of refund claims could prove to be greater than the level of refund claims we estimate. If our refund reserves are not adequate to cover future refund claims, this inadequacy could have a material adverse effect on our liquidity and profitability.

Our standard agreements with our merchants generally limit the time period during which we may seek reimbursement for refunds to members or claims. Our members may make claims for refunds with respect to which we are unable to seek reimbursement from our merchants. Our members could also make false or fraudulent refund claims. Our inability to seek reimbursement from our merchants for refund claims could have an adverse effect on our liquidity and profitability.

If our advertisers do not meet the needs and expectations of our members, our business could suffer.

Our business depends on our reputation for providing high-quality deals, and our brand and reputation may be harmed by actions taken by advertisers, partners, or merchants that are outside our control. For our *Local Deals* and *Getaways* merchants, since we are selling vouchers on behalf of the merchants directly to our members, we face exposures should merchants not fully honor the terms of the deals or the vouchers. As for our travel business, we are collecting an advertising fee from the advertiser and the members are booking the deal directly with the advertiser. Although the advertiser is responsible to the consumer to provide the consumer the deal it advertised, our business can be adversely affected should an advertiser fail to comply with the terms of the advertised deal. From time to time, advertisers risk the insolvency, bankruptcy or closure of their business if they fail to pay their suppliers and can face regulatory issues (including losing their travel licenses), which can result in the cancellation of travel services booked by consumers through the advertiser. Advertisers who fail to fulfill the travel services advertised in the promotions ran by Travelzoo can negatively impact the reputation of Travelzoo, and advertisers that fail to pay Travelzoo for the advertisements can also negatively impact revenue growth. Moreover, any shortcomings of one or more of our advertisers or merchants, particularly with respect to an issue affecting the quality of the deal offered or the products or services sold, may be attributed by our members to us, thus damaging our reputation and brand value and potentially affecting our results of operations. In addition, negative publicity and member sentiment generated as a result of fraudulent or deceptive conduct by our merchants or partners could damage our reputation, reduce our ability to attract new members or retain our current members, and diminish the value of our brand.

Our business relies heavily on email and other messaging services, and any restrictions on the sending of emails or messages or a decrease in member willingness to receive messages could adversely affect our revenue and business.

Our business is highly dependent upon email and other messaging services. Deals offered through emails and other messages sent by us, or on our behalf by our affiliates, generate a substantial portion of our revenue. Because of the importance of email and other messaging services to our businesses, if we are unable to successfully deliver emails or messages to our members or potential members, or if members decline to open our emails or messages, our revenue and profitability would be adversely affected. New laws and regulations regulating the sending of commercial emails, including those enacted in foreign jurisdictions (such as Canada and Europe), may affect our ability to deliver emails or messages to our members or potential members and may also result in increased compliance costs. Further, actions by third parties to block, impose restrictions on, or charge for the delivery of emails or other messages could also materially and adversely impact our business. From time to time, Internet service providers block bulk email transmissions or otherwise experience technical difficulties that result in our inability to successfully deliver emails or other messages to third parties. In addition, our use of email and other messaging services to send communications about our website or other matters may result in legal claims against us, which if successful might limit or prohibit our ability to send emails or other messages. Any disruption or restriction on the distribution of emails or other messages or any increase in the associated costs would materially and adversely affect our revenue and profitability. In addition, the shift in our website traffic originating from mobile devices accessing our services may decrease our members' willingness to use our services if they are not satisfied with our mobile user experience and could decrease their willingness to be an email member, which could adversely affect our revenue and profitability.

"Cookie" laws could negatively impact the way we do business.

A "cookie" is a text file that is stored on a user's computer or mobile device. Cookies are common tools used by thousands of websites and mobile apps to, among other things, store or gather information (e.g., remember log-on details so a user does not have to re-enter them when revisiting a website or opening an app), market to consumers and enhance the user experience. Cookies are valuable tools to improve the customer experience and increase conversion. Many jurisdictions, including the European Union and more recently, California, have adopted regulations governing the use of "cookies." To the extent any such regulations require "opt-in" consent before certain cookies can be placed on a user's computer or mobile device, our ability to serve certain customers in the manner we currently do might be adversely affected and our ability to continue to improve and optimize performance on our website might be impaired, either of which could negatively affect a consumer's experience using our services and our business, market share and results of operations.

Changes to our technology and user interfaces for our website and mobile applications used to present our deals could adversely affect our revenue and business.

Our business depends on website and mobile technology interfaces in order to present deals to our members and generate revenue from our advertisers. Changes to our website and mobile technology and user interface intended to enhance the user experience may have an adverse impact on our member activity and may reduce revenue from advertisers. For example, in October 2016, we launched our fully responsive website that adjusts to different screen sizes and allows our members to more readily search our deals, which we believe has improved the user experience on our site. However, additional changes to the website, mobile application and/or the general user experience may lead to unforeseen issues that could adversely affect our revenue and business.

Our reported total number of members may be higher than the number of our actual individual members and may not be representative of the number of persons who are active potential customers.

The total number of members we report may be higher than the number of our actual individual members because some members have multiple registrations, other members have died or become incapacitated and others may have registered under fictitious names. Given the challenges inherent in identifying these members, we do not have a reliable system to accurately identify the number of actual individual members, and thus we rely on the number of total members shown on our records as our measure of the size of our member base. In addition, the number of members we report includes the total number of individuals that have completed registration through a specific date, less individuals who have unsubscribed. Those numbers of members may include individuals who do not receive our emails because our emails have been blocked or are otherwise undeliverable. As a result, the reported number of members should not be considered as representative of the number of persons who continue to actively consider our deals by reviewing our email offers.

We may not be able to obtain sufficient funds to grow our business and any additional financing may be on terms adverse to your interests.

For the year ended December 31, 2019, our cash and cash equivalents increased by \$1.5 million to \$19.5 million, of which \$14.8 million was held outside the U.S. in certain of our foreign operations. We intend to continue to grow our business and fund our current operations using cash on hand. However, this may not be sufficient to meet our needs, including the payments required to settle various commitments and contingencies, as described under Note 4 to the accompanying consolidated financial statements. We may not be able to obtain financing on commercially reasonable terms, or at all.

If additional financing is not available when required or is not available on acceptable terms, we may be unable to fund our expansion, successfully promote our brand name, develop or enhance our products and services, take advantage of business opportunities, or respond to competitive pressures, any of which could have a material adverse effect on our business.

If we choose to raise additional funds through the issuance of equity securities, existing stockholders may experience significant dilution of their ownership interest and holders of the additional equity securities may have rights senior to existing stockholders of our common stock. If we obtain additional financing by issuing debt securities or bank borrowings, the terms of these arrangements could restrict or prevent us from paying dividends and could limit our flexibility in making business decisions.

Our business may be sensitive to recessions.

The demand for online advertising may be linked to the level of economic activity and employment in the U.S. and abroad. Specifically, our business is primarily dependent on the demand for online advertising from travel and entertainment companies. The most recent recession decreased consumer travel and caused travel and entertainment companies to reduce or postpone their marketing spending generally, and their online marketing spending in particular. Continued or future recessions could have a material adverse effect on our business and financial condition. Moreover, declines or disruptions, such as the Novel Coronavirus, in the travel industry could adversely affect our business and financial performance.

Our operations could be significantly hindered by the occurrence of a natural disaster or other catastrophic event.

Our operations are susceptible to outages due to fire, floods, power loss, telecommunications failures, unexpected technical problems in the systems that power our websites and distribute our email newsletters, break-ins and similar events. In addition, a significant portion of our network infrastructure is located in Northern California, an area susceptible to earthquakes and other natural disasters. We do not have multiple site capacity to protect us against any such occurrence. Outages could cause significant interruptions of our service. In addition, despite our implementation of network security measures, our servers are vulnerable to computer viruses, physical and electronic break-ins, and similar disruptions from unauthorized tampering with our computer systems. Additionally, declines or disruptions in the travel industry generally due to a catastrophic event, such as the Novel Coronavirus, could adversely affect our business and financial performance. We do not carry business interruption insurance to compensate us for losses that may occur as a result of any of these events.

Technological or other assaults on our service could harm our business.

We are vulnerable to coordinated attempts to overload our systems with data, whether by bots or otherwise, which could result in denial or reduction of service to some or all of our users for a period of time. We have experienced denial of service attacks in the past, and may experience such attempts in the future. Any such event could reduce our revenue and harm our operating results and financial condition. We do not carry business interruption insurance to compensate us for losses that may occur as a result of any of these events. In addition, such incidents may also result in a decline in our active user base or engagement levels.

We are subject to payments-related and fraud risks.

We accept payments for the sale of vouchers using a variety of methods, including credit cards and debit cards. We pay interchange and other fees, which may increase over time and raise our operating expenses and lower profitability. We rely on third parties to provide payment processing services, including the processing of credit cards and debit cards, and it could disrupt our business if these companies become unwilling or unable to provide these services to us. We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. In addition, our results can be negatively impacted by purchases made using fraudulent credit cards. Because we act as the merchant of record for certain hotel booking and voucher transactions, we may be held liable for accepting fraudulent credit cards on our websites as well as other payment disputes with our customers. If we have an increase of charge-backs due to the use of fraudulent credit cards on our websites, our business, results of operations and financial condition could be adversely affected. Moreover, under payment card rules and our contracts with our card processors, if there is a security breach of payment card information that we store, we could be liable to the payment card issuing banks for their cost of issuing new cards and related expenses. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments, process electronic funds transfers, or facilitate other types of online payments, and our business and results of operations could be adversely affected. If one or more of these contracts are terminated and we are unable to replace them on similar terms, or at all, it could adversely affect our results of operations.

Our reported financial results may be adversely affected by changes in United States generally accepted accounting principles, and we may incur significant costs to adjust our accounting systems and processes to comply with significant changes.

United States generally accepted accounting principles are subject to interpretation by the Financial Accounting Standards Board, or ("FASB"), the American Institute of Certified Public Accountants, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. In 2014, the FASB issued a new accounting standard related to revenue recognition which changed the way we account for certain of our sales transactions. We adopted this standard in the first quarter of 2018. The adoptions resulted in with a cumulative adjustment to retained earnings and changes in revenue recognition policies. In February 2016, the FASB issued a new accounting standard related to leases which requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability on its balance sheet. The Company adopted ASU 842 on January 1, 2019, using the alternative modified transition method with no restatement of prior periods or cumulative adjustment to retained earnings. We may need to change our accounting systems and processes if we are required to adopt future or proposed changes in accounting principles. The cost of these changes may negatively impact our results of operations during the periods of transition.

Risks Related to Our Markets and Strategy

Our international expansion may result in operating losses, and is subject to other material risks.

In May 2005, we began operations in the United Kingdom. In 2006, we began operations in Canada, Germany, and Spain. In 2007, we began operations in France. In addition, from 2007 through 2009, we began operations in Asia Pacific, including in Australia, China, Hong Kong, Japan, and Southeast Asia.

Our revenues in Asia decreased 17% in 2019 compared to 2018, and our operations in Asia generated an operating loss before tax of \$7.5 million and \$6.3 million in 2019 and 2018, respectively. Our revenues in Europe increased 2% in 2019 compared to 2018, and our operations in Europe generated an operating income before tax of \$4.4 million and \$5.0 million in 2019 and 2018, respectively.

In our effort to expand our business internationally we may continue to invest in marketing as well as additional employees to support the business expansion, which may generate operating losses. Furthermore, operating losses in certain jurisdictions may not have any recognizable tax benefit, which is the case for the Asia Pacific business. These factors could have a material negative impact on our consolidated net income and cash flows, which could result in a significant decrease in the trading price of our common stock. In addition to uncertainty about our ability to generate net income from our foreign operations and expand our international market position, there are certain risks inherent in doing business internationally, including:

- uncertainties and instability in economic and market conditions, such as those caused by the United Kingdom's withdrawal from the European Union, the slowing of growth in markets such as China and Brazil, and unrest in the Middle East;
- uncertainty regarding how the United Kingdom's access to the European Union Single Market and the wider trading, legal, regulatory and labor environments, especially in the United Kingdom and European Union, will be impacted by the United Kingdom's withdrawal from the European Union, including the resulting impact on our business and that of our clients;
- exposure to local economic or political instability and threatened or actual acts of terrorism;
- compliance with U.S. and non-U.S. regulatory laws and requirements relating to anti-corruption, antitrust or competition, economic sanctions, data content and privacy, consumer protection, employment and labor laws, health and safety, information reporting and advertising and promotions;
- financial risks from transactions in multiple currencies;
- longer payment cycles and difficulties in collecting accounts receivable;
- trade barriers and changes in trade regulations, including new or increased tariffs;
- difficulties in developing, staffing and simultaneously managing foreign operations as a result of distance, language and cultural differences;
- stringent local labor laws and regulations;
- bans on travel from certain countries to the United States;
- risks related to government regulation, including changing policies in areas such as trade, travel, immigration, and healthcare, among others; and
- potentially adverse tax consequences.

Moreover, fluctuations in currency exchange rates can impact our revenues. Foreign currency movements relative to the U.S. dollar have negatively impacted our revenues from our operations in Europe. For example, since the United Kingdom's Brexit vote, global markets and foreign exchange rates have experienced increased volatility, including a decline in the value of the British Pound Sterling as compared to the U.S. Dollar. The United Kingdom's withdrawal from the European Union, and the delays and uncertainty in the timing and implementation of Brexit, could lead to added economic and political uncertainty and further devaluation or eventual abandonment of the Euro common currency, any of which could have a negative impact on travel and therefore our business and results of operations. The uncertainty and volatility in foreign exchange rates, which may differ across regions, makes it more difficult to forecast industry and consumer trends and the timing and degree of their impact on our markets and business, which in turn could adversely affect our ability to effectively manage our business and adversely affect our results of operations.

In addition, we face risks related to the growth rate and expansion of our international business. A decline in the growth rates of our international businesses could have a negative impact on our gross profit and earnings per share growth rates and, as a consequence, our stock price. Many of these regions have different customs, currencies, levels of consumer acceptance and use of the Internet for commerce, legislation, regulatory environments, tax laws and levels of political stability. International markets may have strong local competitors with an established brand that may make expansion in that market difficult and costly and take more time than anticipated. In addition, compliance with legal, regulatory or tax requirements in multiple jurisdictions places demands on our time and resources, and we may nonetheless experience unforeseen and potentially adverse legal, regulatory or tax consequences.

As we continue to focus on increasing the profitability of our business, we may not achieve targeted operational cost savings, improvements and efficiencies, which could affect our results of operations and financial condition. In addition, significant potential risks could impair our ability to achieve anticipated operating improvements and/or cost reductions throughout the organization, including, but not limited to, higher than anticipated costs, management distraction from ongoing business activities, failure to maintain adequate controls and procedures, and damage to our reputation and brand image. Additionally, we could also experience a loss of continuity, loss of accumulated knowledge and/or inefficiency, adverse effects on employee morale and productivity and adverse effects on our ability to attract and retain highly skilled employees. Any of these consequences could adversely impact our business.

Investment in new business strategies and acquisitions could disrupt our ongoing business and present risks not originally contemplated.

We have invested, and in the future may invest, in new business strategies and acquisitions. For example, we acquired businesses in Asia Pacific, including Australia, China, Hong Kong, Japan, and Southeast Asia. If the businesses we have acquired do not perform as expected or we are unable to effectively integrate acquired businesses, our operating results and prospects could be harmed. Expansions into foreign markets involve risks and uncertainties, including, among other things, potential distraction of management from operations in North America and Europe, greater than expected liabilities and expenses, inadequate return on capital, and unidentified issues not discovered in our investigations and evaluations of those strategies and acquisitions. It may take us longer than expected to fully realize the anticipated benefits of Asia Pacific, and those benefits may ultimately be smaller than anticipated, which could adversely affect our business. If we are unsuccessful in expanding in new and existing international markets and effectively managing the increased costs of the expansion, our business, results of operations and financial condition will be adversely affected. We are also subject to risks typical of international businesses, including differing economic conditions, differing customs, languages and consumer expectations, changes in political climate, differing tax structures and other regulations and restrictions, including labor laws, and foreign exchange rate volatility.

We may not be able to continue developing awareness of our brand names.

We believe that continuing to build awareness of the *Travelzoo* brand name is critical to achieving widespread acceptance of our business. Brand recognition is a key differentiating factor among providers of online advertising opportunities, and we believe it could become more important as competition in our industry increases. In order to maintain and build brand awareness, we must succeed in our marketing efforts. If we fail to successfully promote and maintain our brands, incur significant expenses in promoting our brands and fail to generate a corresponding increase in revenue as a result of our branding efforts, or encounter legal obstacles which prevent our continued use of our brand names, our business could be materially adversely affected.

If we fail to retain our existing members or acquire new members, our revenue and business will be harmed.

We spent \$8.4 million and \$6.8 million on online marketing initiatives relating to member acquisition for the years ended December 31, 2019 and 2018, respectively, and expect to continue to spend significant amounts to acquire additional members. Our long-term success depends on our continued ability to increase the overall number of members and engage those members throughout the travel planning, booking and trip-taking phases. We must continue to retain and acquire members and ensure that our members are engaged and converted into revenue-generating users in order to maintain or increase revenue. We cannot assure you that the revenue from members we acquire will ultimately exceed the cost of acquiring new members. If members do not perceive our offers to be of high value and quality or if we fail to introduce new and more relevant deals, we may not be able to acquire or retain members. If we reduce our member acquisition costs, we cannot assure you that this will not adversely impact our ability to acquire new members. If we are unable to acquire new members who purchase our deals directly or indirectly in numbers sufficient to grow our business, or if members cease to purchase our deals directly or indirectly through our advertisers, the revenue we generate may decrease and our operating results will be adversely affected. If the level of usage by our member base declines or does not grow as expected, we may suffer a decline in member growth or revenue. A significant decrease in the level of usage or member growth would have an adverse effect on our business, financial condition

and results of operations. In addition, a shift of our audience to mobile devices and social media channels without corresponding updates of our offerings or marketing activities to address this audience could result in lower revenues.

Our business may be sensitive to events affecting the travel industry in general.

Events like Middle East conflicts, terrorist attacks, mass shooting incidents, natural disasters, such as hurricanes, earthquakes, fires, droughts, floods and volcanic activity, and travel-related health events, such as the 2019 Novel Coronavirus, have a negative impact on the travel industry and affect travelers' behavior by limiting their ability or willingness to visit certain locations. In addition, advertisers may choose to limit advertising spend on certain destinations given the recent terror attacks, health events and natural disasters, which can adversely impact our business. We are not in a position to evaluate the net effect of these circumstances on our business as these events are largely unpredictable; however, we believe there has been negative impact to our business by such events. Furthermore, in the longer term, our business might be negatively affected by financial pressures on or changes to the travel industry. For example, certain jurisdictions, particularly in Europe, are considering regulations intended to address the issue of "overtourism" including by restricting access to city centers or popular tourist destinations or limiting accommodation offerings in surrounding areas, such as by restricting construction of new hotels or the renting of homes or apartments. Such regulations could adversely affect travel to, or our ability to offer accommodations in, such markets, which could negatively impact our business, growth and results of operations. The United States has implemented or proposed, or is considering, various travel restrictions and actions that could affect U.S. trade policy or practices, which could also adversely affect travel to or from the United States. If such events result in a long-term negative impact on the travel industry, such impact could have a material adverse effect on our business.

In addition, the United Kingdom's withdrawal from the European Union, including uncertainty or delays in the implementation of Brexit, could continue to lead to economic uncertainty and have a negative impact on the travel industry and our European business. The United Kingdom could lose access to the single European Union market, travel between the United Kingdom and European Union countries could be restricted, and we could face new regulatory costs and challenges, the scope of which are presently unknown.

With respect to the 2019 Novel Coronavirus outbreak specifically, we currently expect that our first quarter 2020 financial results may be negatively impacted. Additionally, we expect the 2019 Novel Coronavirus will continue to negatively impact our business beyond the first quarter of 2020, but the extent and duration of such impact in the long term is largely uncertain as it is dependent on future developments that cannot be accurately predicted at this time, including but not limited to the severity and transmission rate of the virus, the extent and effectiveness of containment actions taken, including mobility restrictions, and the impact of these and other factors on travel behavior.

We may not be able to attract travel and entertainment companies or Internet users if we do not continually enhance and develop the content and features of our products and services.

To remain competitive, we must continually improve the responsiveness, functionality, and features of our products and services. We may not succeed in developing features, functions, products, or services that travel and entertainment companies and Internet users find attractive. This could reduce the number of travel and entertainment companies and Internet users using our products and materially adversely affect our business. We also launched a new and simpler design for our website and are investing in packaging technology in both Europe and the United States to expand our products to include package offers. We cannot guarantee that the expanded product offerings will be embraced by our members. It may take us longer than expected to fully realize the anticipated benefits of the expanded product offerings, and those benefits may ultimately be smaller than anticipated, which could adversely affect our business. While we are striving to improve functionality, usability and design in our products, the recent enhancements on web and mobile and investment in packaging technology may not achieve the desired results we anticipate, and if unsuccessful, could result in a decline in revenues, an increase in costs, and a negative impact on our business.

We may lose business if we fail to keep pace with rapidly changing technologies and client needs.

Our success is dependent on our ability to develop new and enhanced software, services, and related products to meet rapidly evolving technological requirements for online advertising. Our current technology may not meet the future technical requirements of travel and entertainment companies. Trends that could have a critical impact on our success include:

- rapidly changing technology in online advertising, including a significant shift of business to mobile platforms;
- evolving industry standards, including both formal and *de facto* standards relating to online advertising;
- developments and changes relating to the Internet;

- competing products and services that offer increased functionality; and
- changes in travel company, entertainment company, and Internet user requirements.

If we are unable to timely and successfully develop and introduce new products and enhancements to existing products in response to our industry's changing technological requirements, our business could be materially adversely affected.

Our business and growth will suffer if we are unable to hire and retain highly skilled personnel.

Our future success depends on our ability to attract, train, motivate, and retain highly skilled employees. We may be unable to retain our skilled employees, or attract, assimilate, and retain other highly skilled employees in the future. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. If we are unable to hire and retain skilled personnel, our growth may be restricted, which could adversely affect our future success.

We may not be able to effectively manage our expanding operations.

Since the commencement of our operations, we have experienced periods of rapid growth. In order to execute our business plan, we must continue to grow significantly. This growth has placed, and our anticipated future growth will continue to place, a significant strain on our management, systems, and resources. We expect that we will need to continue to improve our financial and managerial controls and reporting systems and procedures. We will also need to continue to expand and maintain close coordination among our sales, production, marketing, IT, and finance departments. We may not succeed in these efforts. Our inability to expand our operations in an efficient manner could cause our expenses to grow disproportionately to revenues, our revenues to decline or grow more slowly than expected and could otherwise have a material adverse effect on our business.

Intense competition may adversely affect our ability to achieve or maintain market share and operate profitably.

The markets for the services we offer are intensely competitive, constantly evolving and subject to rapid change, and current and new competitors can launch new services at a relatively low cost. We compete for advertising dollars with large Internet portal sites, such as Trip Advisor, that offer listings or other advertising opportunities to travel, entertainment and local businesses. These companies have significantly greater financial, technical, marketing and other resources and larger advertiser bases. We compete with search engines like Google that offer pay-per-click listings. Additionally, certain search engines have increased their focus on acquiring or launching travel products. For example, Google has continued to add features and functionality to its flight and hotel metasearch products ("Google Flights" and "Hotel Ads"), which have grown and are continuing to grow rapidly and has also further integrated its "Book on Google" reservation functionality into the Hotel Ads product. We compete with travel metasearch engines like Kayak.com (owned by Booking Holdings) and online travel and entertainment deal publishers (including online restaurant reservation services). We compete with large online travel agencies like the Expedia Group and Booking Holdings, as well as thousands of individual travel agencies around the world, that also offer advertising placements and hotel booking platforms and capture consumer interest. As a result of our acquisition of Travelzoo Asia Pacific, we compete or may compete in the future with large online travel service providers, like Ctrip (which owns Trip.com) and eLong. There has been substantial consolidation of the global travel industry and we believe this trend will continue. Some of our competitors are large companies that have significant resources and substantial international operations. These large companies have completed acquisitions to further consolidate the online travel industry. The Expedia Group is comprised of Travelocity, Orbitz, Hotels.com, Hotwire, Trivago, and HomeAway, among others. Booking Holdings owns Booking.com, Priceline.com, Agoda.com, Kayak.com, Cheapflights, Rentalcars.com, Momondo, and OpenTable, among others. The continued consolidation of the global travel market may impact our ability to compete in certain areas.

There has also been a proliferation of new channels and platforms through which accommodation providers can offer reservations. For example, companies such as Airbnb (which recently acquired HotelTonight), HomeAway and VRBO (which are both owned by Expedia Group) offer services providing alternative accommodation property owners, particularly individuals, an online place to list their alternative accommodations where travelers can search and book such properties and compete with our hotel booking platform and hotel offers. Further, meta-search services may lower the cost for new companies to enter the market by providing a distribution channel without the cost of promoting the new entrant's brand to drive consumers directly to its website. Some of our competitors and potential competitors offer a variety of online services, such as food delivery, shopping, gaming or search services, many of which are used by consumers more frequently than online travel services. As a result, a competitor or potential competitor that has established other, more frequent online interactions with consumers may be able to more easily or cost-effectively acquire customers for its online travel services than we can. For example, some competitors or potential competitors with more frequent online interactions with consumers are seeking to create "super-apps" where consumers can use many online services without leaving that company's app, in particular in markets such as Asia where online activity (including e-commerce) is conducted primarily through apps on mobile devices. If any of these platforms are successful in offering services similar to ours to consumers who would otherwise use our platforms or if we are unable to offer our services to consumers within these super-apps, our customer acquisition efforts could be less effective and our customer acquisition costs, including our brand and performance marketing expenses, could increase, either of which would harm our business and results of operations.

We also compete with companies like Groupon that sell vouchers for deals from local businesses such as spas, hotels and restaurants, as well as sell deals from tour operators for vacation packages. We expect to face increased competition from other Internet and technology-based businesses such as Google. To the extent that Google, or other leading search or metasearch engines that have a significant presence in our key markets, offer comprehensive travel planning or shopping capabilities, or refer those leads to suppliers directly, or to other favored partners, there could be an adverse impact on our business and financial performance. We also have seen that some competitors will accept lower margins, or negative margins, to attract attention and acquire new members. If competitors engage in group buying initiatives in which merchants receive a higher percentage of the face value than we currently offer, we may be forced to pay a higher percentage of the face value than we currently offer, which may reduce our revenue. In addition, we compete with newspapers, magazines and other traditional media companies that operate websites which provide online advertising opportunities. We expect to face additional competition as other established and emerging companies, including print media companies, enter the online advertising market. Competition could result in reduced margins on our services, loss of market share or less use of Travelzoo by advertisers and consumers. If we are not able to compete effectively with current or future competitors as a result of these and other factors, our business could be materially adversely affected.

Loss of any of our key management personnel could negatively impact our business.

Our future success depends to a significant extent on the continued service and coordination of our management team. The loss or departure of any of our executive officers or other key employees could materially adversely affect our ability to implement our business plan. We do not maintain key person life insurance for any member of our management team. In addition, we expect new members to join our management team in the future. These individuals will not previously have worked together and will be required to become integrated into our management team. If our key management personnel are not able to work together effectively or successfully, our business could be materially adversely affected.

We may not be able to access third-party technology upon which we depend.

We use data technology and software products from third parties, and technology from our vendors may not continue to be available to us on commercially reasonable terms, or at all. Our business will suffer if we are unable to access technology, to gain access to additional products or to integrate new technology with our existing systems. This could cause delays in our development and introduction of new services and related products or enhancements of existing products until equivalent or replacement technology can be accessed, if available, or developed internally, if feasible. If we experience these delays, our business could be materially adversely affected.

We also rely on certain third-party computer systems and third party service providers, including Global Distribution Systems and computerized central reservation systems, in connection with providing certain of our hotel booking services and travel package offerings. Any interruption in these third-party services and systems or deterioration in their performance could prevent us from utilizing certain booking services and have an adverse effect on our business, brands and results of operations. Our agreements with some third-party service providers are terminable upon short notice and often do not provide recourse for service interruptions.

Acquisitions, investments and joint ventures could result in operating difficulties, dilution, and other harmful consequences that may adversely impact our business and results of operations.

We may evaluate and consider a wide array of potential strategic transactions as part of our overall business strategy, including business combinations, acquisitions and dispositions of businesses, technologies, services, and other assets, as well as strategic investments and joint ventures. At any given time we may be engaged in discussions or negotiations with respect to one or more of these types of transactions. Any of these transactions could be material to our financial condition and results of operations.

On January 13, 2020, the Company entered into a Stock Purchase Agreement (the “SPA”) with JFC Travel Group Co. (“JFC”) and the sellers identified on the signature pages thereto (“Sellers”), which owns and operates Jack’s Flight Club. Pursuant to the SPA, on January 13, 2020, the Sellers sold 60% of the shares of JFC to the Company for an aggregate purchase price of \$12,000,000, payable in cash and promissory notes. The remaining 40% of the shares of JFC are subject to a call/put option exercisable by the Company or the Sellers, as applicable, on or around January 1, 2021, subject to the terms and conditions set forth in the SPA.

These transactions involve significant challenges and risks. Some of the areas where we may face risks or difficulties include:

- Diversion of management time and focus from operating our business to acquisition integration challenges.
- Implementation or remediation of controls, procedures, and policies at the acquired company.
- Integration of the acquired company's accounting, human resource, and other administrative systems, and coordination of product, engineering, and sales and marketing functions.
- Transition of operations, users, and customers onto our existing platforms.
- Failure to obtain required approvals on a timely basis, if at all, from governmental authorities, or conditions placed upon approval, under competition and antitrust laws which could, among other things, delay or prevent us from completing a transaction, or otherwise restrict our ability to realize the expected financial or strategic goals of an acquisition.
- In the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political, and regulatory risks associated with specific countries.
- Failure to successfully further develop the acquired business or technology.
- Cultural challenges associated with integrating employees from the acquired company into our organization, and retention of employees from the businesses we acquire.
- Liability for activities of the acquired company before the acquisition, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities, and other known and unknown liabilities.
- Litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders, or other third parties.
- Challenges relating to the structure of an investment, such as governance, accountability and decision-making conflicts that may arise in the context of a joint venture.
- Expected and unexpected costs incurred in pursuing acquisitions, including identifying and performing due diligence on potential acquisition targets that may or may not be successful.
- Entrance into markets in which we have no direct prior experience and increased complexity in our business.
- Inability to sell disposed assets.
- Impairment of investments, goodwill and other assets acquired or divested.
- In the case of equity investments, the need to obtain financial and other information regarding the investee in order to properly account and report for the investment on an on-going basis.

- Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities, and harm our business generally.
- Future acquisitions may also require us to issue additional equity securities, spend our cash, or incur debt (and increased interest expense), liabilities and amortization expenses related to intangible assets or write-offs of goodwill, which could adversely affect our results of operations and dilute the economic and voting rights of our stockholders. Also, the anticipated benefit of many of our acquisitions may not materialize.
- Failure to secure necessary financing in order to complete a purchase or applicable transaction. For example, we may be unable to secure the financing necessary to pay off the promissory notes for the JFC transaction by their due date. This would mean we would have to use our operating cash or would be subject to the Sellers' rights of recourse pursuant to the promissory notes.

Risks Related to the Market for our Shares

Our stock price has been volatile historically and may continue to be volatile.

The trading price of our common stock has been and may continue to be subject to wide fluctuations. During the twelve months ended March 3, 2020, the closing price of our common stock on the NASDAQ Global Select Market ranged from \$8.18 to \$20.91. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results; announcements of technological innovations or new products by us or our competitors; changes in financial estimates and recommendations by securities analysts; the operating and stock price performance of other companies that investors may deem comparable to us; news reports relating to trends in our markets or general economic conditions; the level of demand for our stock, including the amount of short interest in our stock; stockholder collateral arrangements, and cash requirement on funds or stockholders that result in stockholder trades. There are several products offered in the market that allow stockholders to hedge stock, pledge their stock for collateral or engage in short selling, which can negatively impact the price of our stock. The Company does not prohibit stockholder hedging or pledging arrangements but does have strict policies against trading with material non-public information. Our stock price may be volatile given that operating results may vary from the expectations of securities analysts and investors, which are beyond our control. In the event that our operating results fall below the expectations of securities analysts or investors, the trading price of our common shares may decline significantly. Moreover, fluctuations in our stock price and our price-to-earnings multiple may have made our stock attractive to hedge or day-trading investors who often shift funds into and out of stocks rapidly, exacerbating price fluctuations in either direction, particularly when viewed on a quarterly basis.

In addition, the stock market in general, and the market prices for Internet-related companies in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance.

We have a principal stockholder.

Ralph Bartel, who founded Travelzoo and who is a Director of the Company, is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro. As of December 31, 2019, Azzurro is the Company's largest stockholder, holding approximately 47.8% of the Company's outstanding shares. Azzurro currently holds a proxy given to it by Holger Bartel that provides it with a total of 48.2% of the voting power.

Risks Related to Legal Uncertainty

We may become subject to shareholder lawsuits over securities violations due to volatile stock price and this can be burdensome to management and costly to defend.

Shareholder lawsuits for securities violations are often launched against companies whose stock price is volatile. Such lawsuits involving the Company would require management's attention to defend, which may distract attention from operating the Company. In addition, even if the lawsuit is meritless, the Company may incur substantial costs to defend itself and/or settle such claims, to minimize the distraction and costs of defense. Such lawsuits could result in judgments against the Company requiring substantial payments to claimants. Such costs may materially impact our results of operations and financial condition.

We may become subject to burdensome government regulations and legal uncertainties affecting the Internet which could adversely affect our business.

To date, governmental regulations have not materially restricted use of the Internet in our markets. However, the legal and regulatory environment that pertains to the Internet is uncertain and may change. Uncertainty and new regulations, including those enacted in foreign jurisdictions, could increase our costs of doing business, prevent us from delivering our products and services over the Internet, or slow the growth of the Internet. For example, new laws and regulations regulating online advertisements, including those enacted in foreign jurisdictions, may affect our advertising revenue and may also result in decreased traffic to our websites. In addition to new laws and regulations being adopted, existing laws may be applied to the Internet. New and existing laws may cover issues which include:

- user privacy;
- anti-spam legislation;
- consumer protection;
- copyright, trademark and patent infringement;
- pricing controls;
- characteristics and quality of products and services;
- sales and other taxes; and
- other claims based on the nature and content of Internet materials.

We are subject to laws and regulations worldwide, changes to which could increase the Company's costs and individually or in the aggregate adversely affect the Company's business.

The Company is subject to laws and regulations affecting its domestic and international operations in a number of areas. These U.S. and foreign laws and regulations affect the Company's activities including, but not limited to, in areas of employment related laws and regulations, advertising, digital content, consumer protection, real estate, billing, e-commerce, promotions, intellectual property ownership and infringement, tax, anti-corruption, foreign exchange controls and cash repatriation restrictions, data privacy requirements, anti-competition, health and safety, and vacation packaging.

Compliance with these laws, regulations and similar requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and doing business. Any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation, could individually or in the aggregate make the Company's services less attractive to the Company's customers, delay the introduction of new products in one or more regions, or cause the Company to change or limit its business practices or incur more costs to comply or defend itself. The Company has implemented policies and procedures designed to ensure compliance with applicable laws and regulations, but there can be no assurance that the Company's employees, contractors, partners, or agents will not violate such laws and regulations or the Company's policies and procedures.

The implementation of the CARD Act and similar state and foreign laws may harm our Local Deals business.

Vouchers which are issued under our *Local Deals* and *Getaways* may be considered gift cards, gift certificates, stored value cards or prepaid cards and therefore governed by, among other laws, the Credit CARD Act of 2009 (the "CARD Act"), and state laws governing gift cards, stored value cards and coupons. Other foreign jurisdictions have similar laws in place, in particular European jurisdictions where the European E-Money Directive regulates the business of electronic money institutions. Many of these laws contain provisions governing the use of gift cards, gift certificates, stored value cards or prepaid cards, including specific disclosure requirements and prohibitions or limitations on the use of expiration dates and the imposition of certain fees. For example, if the vouchers are subject to the CARD Act and are not included in the exemption for promotional programs, it is possible that the purchase value, which is the amount equal to the price paid for the voucher, or the promotional value, which is the add-on value of the voucher in excess of the price paid, or both, may not expire before the later of (i) five years after the date on which the voucher was issued; (ii) the voucher's stated expiration date (if any); or (iii) a later date provided by applicable state law. Purported class actions against other companies have been filed in federal and state court claiming that coupons similar to the vouchers are subject to the CARD Act and various state laws governing gift cards and that the defendants have violated these laws by issuing the coupons with expiration dates and other restrictions. In addition, investigations by certain state attorney general offices have been launched against other companies with regards to similar issues. If similar claims are asserted against the Company in respect of the *Local Deals* and *Getaways* vouchers and are successful, we may become subject to fines and penalties and incur additional costs. In addition, if federal or state laws require that the face value of our vouchers have a minimum expiration period beyond the period desired by a merchant for its promotional program, or no expiration period, this may affect the willingness of merchants to issue vouchers in jurisdictions where these laws apply. For unredeemed vouchers, similar laws in other jurisdictions require us or merchants to honor the face value of vouchers sold, after the redemption period. For example, in Germany, certain consumer protection laws require us to refund consumers for approximately four years after the purchase date for the amount of the face value of purchased vouchers which remains unredeemed at the end of the redemption period. There may be similar laws in other countries or provinces that require similar practices. Such developments may materially and adversely affect the profitability or viability of our *Local Deals* and *Getaways*.

If we are required to materially increase the estimated liability recorded in our financial statements with respect to unredeemed Local Deals and Getaways vouchers due to application of certain gift card laws, our net income could be materially and adversely affected.

In certain states and foreign jurisdictions, our *Local Deals* and *Getaways* vouchers may be considered a gift card. Some of these states and foreign jurisdictions include gift cards under their unclaimed and abandoned property laws which require companies to remit to the government the value of the unredeemed balance on the gift cards after a specified period of time (generally between one and five years) and impose certain reporting and record keeping obligations. The analysis of the potential application of the unclaimed and abandoned property laws to our vouchers is complex, involving an analysis of constitutional and statutory provisions and factual issues, including our relationship with members and merchants and our role as it relates to the issuance and delivery of a voucher. In the event that one or more states or foreign jurisdictions successfully challenges our position on the application of its unclaimed and abandoned property laws to vouchers, or if the estimates that we use in projecting the likelihood of vouchers being redeemed prove to be inaccurate, our liabilities with respect to unredeemed vouchers may be materially higher than the amounts shown in our financial statements. If we are required to materially increase the estimated liability recorded in our financial statements with respect to unredeemed gift cards, our net income could be materially and adversely affected. Moreover, a successful challenge to our position could subject us to penalties or interest on unreported and unremitted sums, and any such penalties or interest would have a further material adverse impact on our net income.

New tax treatment of companies engaged in Internet commerce may adversely affect the commercial use of our services and our financial results.

Due to the global nature of the Internet, it is possible that various states or foreign countries might attempt to regulate our transmissions or levy sales, income or other taxes relating to our activities. Tax authorities at the international, federal, state and local levels are currently reviewing the appropriate treatment of companies engaged in Internet commerce. New or revised international, federal, state or local tax regulations may subject us or our members to additional sales, income and other taxes. We cannot predict the effect of current attempts to impose sales, income or other taxes on commerce over the Internet. New or revised taxes and, in particular, sales taxes, Valued Added Tax ("VAT") and similar taxes would likely increase the cost of doing business online and decrease the attractiveness of advertising and selling goods and services over the Internet. In June 2018, the U.S. Supreme Court decided the *South Dakota v. Wayfair, Inc.* sales tax nexus case. As a result of the Supreme Court ruling, states now have the ability to adopt laws requiring taxpayers to collect and remit sales tax on a basis of economic nexus, even in states in which the taxpayer has no presence. For example, due to media sales for travel agents, clients or partners in certain states with economic nexus provisions (including but not limited to New Mexico, South Dakota, West Virginia and Hawaii), we could have potential tax exposure pursuant to the *Wayfair* decision. We are continuing to evaluate states where we could have such exposure, as well as the impact of the ruling on our financial position, results of operations and cash flows. New taxes could also create significant increases in internal costs necessary to capture data and collect and remit taxes. Any of these events could have an adverse effect on our business and results of operations.

We may suffer liability as a result of information retrieved from or transmitted over the Internet and claims related to our service offerings.

We may be sued for defamation, civil rights infringement, negligence, patent, copyright or trademark infringement, invasion of privacy, personal injury, product liability, breach of contract, unfair competition, discrimination, antitrust or other legal claims relating to information that is published or made available on our websites or service offerings we make available (including provision of an application programming interface platform for third parties to access our website, mobile device services and geolocation applications). These types of claims have been brought, sometimes successfully, against online services in the past. The fact that we distribute information via email may subject us to potential risks, such as liabilities or claims resulting from unsolicited email or spamming, lost or misdirected messages, security breaches, illegal or fraudulent use of email or interruptions or delays in email or mobile service. These risks are enhanced in certain jurisdictions outside the U.S., where our liability for such third-party actions may be less clear and we may be less protected. In addition, we could incur significant costs in investigating and defending such claims, even if we ultimately are not found liable. If any of these events occurs, our business could be materially and adversely affected.

We are subject to risks associated with information disseminated through our websites and applications, including consumer data, content that is produced by our editorial staff and errors or omissions related to our product offerings. Such information, whether accurate or inaccurate, may result in our being sued by our advertisers, merchants, members or third parties and as a result our revenue and reputation could be materially and adversely affected.

In addition, we may acquire personal or confidential information, including credit card information, from users of our websites and mobile applications, related to our *Local Deals* and hotel booking platform. Our existing security measures may not be successful in preventing security breaches. For example, outside parties may attempt to fraudulently induce employees, merchants or customers to disclose sensitive information in order to gain access to our secure systems and networks. Outside parties may also attempt to takeover customer accounts by using passwords, usernames and other personal information obtained elsewhere to attempt to login to customer accounts on our websites. A party (whether internal, external, an affiliate or unrelated third party) that is able to circumvent our security systems could steal consumer information or transaction data or other proprietary information. In the last few years, several major companies, such as Target, Home Depot, Zappos, LinkedIn and Sony, have experienced high-profile security breaches that exposed their customers' personal information and it is expected that these types of events will continue to occur. A security breach at any travel service provider, hotel, payment processor, GDS or other third-party travel supplier, such as the security breach experienced by Sabre, could result in negative publicity and exposure, as well as damage to the reputations of the hotels impacted by the incident.

While we strive to use commercially acceptable means to protect personal data, no method of transmission over the Internet, or method of electronic storage, is 100% secure. Cyberattacks by individuals, groups of hackers and state-sponsored organizations are increasing in frequency and sophistication and are constantly evolving. Further, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. We have experienced and responded to cyberattacks, which we believe have not had a significant impact on the integrity of our systems or the security of data, including customer data maintained by us. These issues are likely to become more difficult to manage as we expand the number of places where we operate and as the tools and techniques used in such

attacks become more advanced. Security breaches or the unauthorized disclosure of customer personal information could result in negative publicity, damage our reputation, expose us to risk of loss or litigation and possible liability and subject us to regulatory penalties and sanctions. Any failure or perceived failure by us, or our service providers, to comply with the privacy policies, privacy-related obligations to users or other third parties, or privacy related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other user data, may result in governmental enforcement actions, litigation or public statements against the company by consumer advocacy groups or others and could cause our customers and members to lose trust in the company, which could have an adverse effect on our business. If our security measures are breached, or if our services are subject to attacks that degrade or deny the ability of users to access our products and services, our products and services may be perceived as not being secure, users and customers may curtail or stop using our products and services, and we may incur significant legal and financial exposure.

We could also be adversely affected if legislation or regulations are expanded to require changes in our business practices or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our business, results of operations or financial condition. For example, the European Union has adopted the GDPR, which went into effect in May 2018 and has harmonized and enhanced data privacy laws across Europe, which has resulted and will continue to result in significantly greater compliance burdens and costs for us. The California Consumer Privacy Act was recently passed and creates new data privacy rights for users effective in 2020. There are a number of proposals for data privacy laws pending or proposed in other jurisdictions, including at both the state and federal level of the United States. Complying with these varying national and international requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. In addition, compliance with these laws may restrict our ability to provide services to our customers that they may find to be valuable. To the extent that European regulatory authorities impose fines on the Company or require changes to the Company's business practices, the Company's business and results of operations could be materially and adversely affected. We also could be adversely affected if legislation or regulations are expanded to require additional changes in our business practices or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our business, results of operations or financial condition.

We post on our websites our privacy policies and practices concerning the collection, use and disclosure of user data. We may need to increase our security-related expenditures to maintain or increase our systems' security. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any regulatory requirements or orders or other federal, state or international privacy or consumer protection-related laws and regulations could result in proceedings or actions against us by governmental entities or others (e.g., class action privacy litigation), and subject us to significant penalties and negative publicity, require us to change our business practices, increase our costs and adversely affect our business. If Internet and mobile users were to reduce their use of our websites, mobile platforms, products, and services as a result of these privacy concerns, our business could be harmed. As noted above, we are also subject to the possibility of security breaches, which themselves may result in a violation of these laws.

Claims have been asserted against us relating to shares not issued in our 2002 merger.

The Company was formed as a result of a combination and merger of entities founded by the Company's principal stockholder, Ralph Bartel. In 2002, Travelzoo.com Corporation was merged into Travelzoo. Under and subject to the terms of the merger agreement, holders of promotional shares of Travelzoo.com Corporation ("Netsurfers") who established that they had satisfied certain prerequisite qualifications were allowed a period of 2 years following the effective date of the merger to receive one share of Travelzoo in exchange for each share of common stock of Travelzoo.com Corporation. In 2004, two years following the effective date of the merger, certain promotional shares remained unexchanged. As the right to exchange these promotional shares expired, no additional shares were reserved for issuance. Thereafter, the Company began to offer a voluntary cash program for those who established that they had satisfied certain prerequisite qualifications for Netsurfer promotional shares as further described below.

Beginning in 2010, the Company became subject to unclaimed property audits of various states in the United States related to the above unexchanged promotional shares. The Company recorded charges for the estimated settlements with these states of \$20.0 million, \$3.0 million and \$22.0 million in 2011, 2012 and 2013, respectively. In 2014, the Company released \$7.6 million of the reserve related to the completion of settlements with the states.

Although the Company has settled the states' unclaimed property claims with all states, the Company may still receive inquiries from certain potential Netsurfer promotional stockholders that had not provided their state of residence to the Company by April 25, 2004. Therefore, the Company is continuing its voluntary program under which it makes cash payments to individuals related to the promotional shares for individuals whose residence was unknown by the Company and who establish that they satisfy the original conditions required for them to receive shares of Travelzoo.com Corporation, and who failed to submit requests to convert their shares into shares of Travelzoo within the required time period. This voluntary program is not available for individuals whose promotional shares have been escheated to a state by the Company, except those

individuals for which their residence was unknown to the Company. The Company did not make any material payments under this voluntary program in 2019 and 2018.

The total cost of this voluntary program is not reliably estimable because it is based on the ultimate number of valid requests received and future levels of the Company's common stock price. The Company's common stock price affects the potential liability because the amount of cash payments under the program is based in part on the recent level of the stock price at the date valid requests are received. The Company does not know how many of the requests for shares originally received by Travelzoo.com Corporation in 1998 were valid, but the Company believes that only a portion of such requests were valid. In order to receive payment under this voluntary program, a person is required to establish that such person validly held shares in Travelzoo.com Corporation.

Federal laws and regulations, such as the Bank Secrecy Act and the USA PATRIOT Act and similar foreign laws, could be expanded to include Local Deals and Getaways vouchers.

Various federal laws, such as the Bank Secrecy Act and the USA PATRIOT Act and foreign laws and regulations, such as the European Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, impose certain anti-money laundering requirements on companies that are financial institutions or that provide financial products and services. For these purposes, financial institutions are broadly defined to include money services businesses such as money transmitters, check cashers and providers of prepaid access cards. Examples of anti-money laundering requirements imposed on financial institutions include customer identification and verification programs, suspicious activity monitoring and reporting, record retention policies and procedures and transaction reporting. We do not believe that we are a financial institution subject to these laws and regulations based, in part, upon the closed loop nature and other characteristics of vouchers and our role with respect to the distribution of vouchers to members. However, the Financial Crimes Enforcement Network, a division of the U.S. Department of the Treasury tasked with implementing the requirements of the Bank Secrecy Act, recently issued final rules regarding the scope and requirements for non-bank parties involved in stored value or prepaid access cards, including obligations on sellers or providers of "prepaid access". Under the final rule, providers or sellers of closed loop vouchers, such as those offered through the *Local Deals* and *Getaways* programs, would only be subject to registration if the vouchers exceed \$2,000 in total value or if they are sold in aggregate amounts exceeding \$10,000 to any single person in one day. Should the \$2,000 limit be exceeded or should more than \$10,000 in aggregate vouchers be sold to any individual person (sales to businesses for resale or distribution are excluded) then we may be deemed either a seller or provider of prepaid access subject to regulation. In the event that we become subject to the requirements of the Bank Secrecy Act or any other anti-money laundering law or regulation imposing obligations on us as a money services business, our regulatory compliance costs to meet these obligations would likely increase which could reduce our net income. In addition, the costs for third parties to sell vouchers would increase, which may restrict our ability to enlist third parties to issue vouchers.

Our internal control over financial reporting may not be effective, and our independent registered public accounting firm may not be able to attest as to the effectiveness of such internal controls, which could have a significant and adverse effect on our business.

We are obligated to evaluate our internal control over financial reporting in order to allow management to report on, and our independent registered public accounting firm to opine on, our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002 and the rules and regulations of the SEC, which we collectively refer to as Section 404. In our Section 404 evaluation, we may identify areas of internal control that may need improvement and may require remediation efforts where necessary. Currently, none of our identified areas that need improvement has been categorized as material weaknesses. We may identify conditions that may result in material weaknesses in the future.

We may be unable to protect our registered trademark or other proprietary intellectual property rights.

Our success depends to a significant degree upon the protection of the *Travelzoo* brand name. We rely upon a combination of copyright, trade secret and trademark laws, as well as non-disclosure and other contractual arrangements to protect our intellectual property rights. The steps we have taken to protect our proprietary rights, however, may not always succeed in deterring misappropriation of proprietary information.

We have registered the *Travelzoo* trademark in the U.S., Australia, Canada, China, Hong Kong, Japan, South Korea, Taiwan, the European Union, the U.K. and other jurisdictions. If we are unable to protect our rights in the mark in North America, Europe, and Asia Pacific, a key element of our strategy of promoting *Travelzoo* as a brand could be disrupted and our business could be adversely affected. We may not always be able to detect unauthorized use of our proprietary information or take appropriate steps to enforce our intellectual property rights. In addition, the validity, enforceability, and scope of protection of intellectual property in Internet-related industries are uncertain and still evolving. The laws of countries in which we may market our services in the future are uncertain and may afford little or no effective protection of our intellectual property. The unauthorized reproduction or other misappropriation of our proprietary technology could enable third parties to benefit from

our technology and brand name without paying us for them. If this were to occur, our business could be materially adversely affected.

We may face liability from intellectual property litigation that could be costly to prosecute or defend and distract management's attention with no assurance of success.

We cannot be certain that our products, content and brand names do not or will not infringe valid patents, copyrights or other intellectual property rights held by third parties. We expect that infringement claims in our markets will increase in number as more participants enter the markets. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. We may incur substantial expenses in defending against these third-party infringement claims, regardless of their merit, and such claims could result in a significant diversion of the efforts of our management personnel. Successful infringement claims against us may result in monetary liability or a material disruption in the conduct of our business. We endeavor to defend our intellectual property rights diligently, but intellectual property litigation is extremely expensive and time consuming, and has and is likely to continue to divert managerial attention and resources from our business objectives. Successful infringement claims against us could result in monetary liability and resolution of claims may require us to obtain licenses to use intellectual property rights belonging to third parties, which may be expensive to procure.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We are headquartered in New York, New York, where we occupy approximately 13,500 square feet of leased office space. We have leased offices in Asia Pacific for operations in China, Australia, Hong Kong, Singapore, and Japan, including offices in Beijing, Hong Kong, Shanghai, Singapore, Sydney, and Tokyo. We also have leased offices for our Europe operations in France, Germany, Spain, and the U.K., including offices in Barcelona, Berlin, Hamburg, London, Manchester, Munich, and Paris. In addition to our New York office, we have several leased offices throughout the U.S. and Canada for our North America operations, including offices in Chicago, Illinois; Austin, Texas; Las Vegas, Nevada; Los Angeles, California; Miami, Florida; Mountain View, California; San Francisco, California; Toronto, Ontario; and Vancouver, British Columbia.

We believe that our leased facilities are adequate to meet our current needs; however, we intend to expand our operations and therefore may require additional facilities in the future. We believe that such additional facilities are available.

Item 3. Legal Proceedings

The information set forth under "Note 4 - Commitments and Contingencies" to the accompanying consolidated financial statements included in Part II, Item 8 of this report is incorporated herein by reference.

Item 4. Mine Safety Disclosure

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Since August 18, 2004, our common stock has been trading on the NASDAQ Global Select Market under the symbol "TZOO." The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported by NASDAQ.

	High	Low
2019:		
Fourth Quarter	\$ 11.44	\$ 9.47
Third Quarter	\$ 14.96	\$ 10.26
Second Quarter	\$ 20.91	\$ 12.61
First Quarter	\$ 18.19	\$ 8.87
2018:		
Fourth Quarter	\$ 12.16	\$ 7.43
Third Quarter	\$ 20.60	\$ 10.95
Second Quarter	\$ 18.30	\$ 6.70
First Quarter	\$ 7.35	\$ 6.00

On March 3, 2020, the last reported sales price of our common stock on the NASDAQ Global Select Market was \$8.64 per share.

As of March 3, 2020, there were approximately 197 stockholders of record of our shares.

Dividend Policy

Travelzoo has not declared or paid any cash dividends since inception and does not expect to pay cash dividends for the foreseeable future. The payment of dividends will be at the discretion of our board of directors and will depend upon factors such as future earnings, capital requirements, our financial condition and general business conditions.

Sales of Unregistered Securities

There were no unregistered sales of equity securities during fiscal year 2019.

Repurchases of Equity Securities

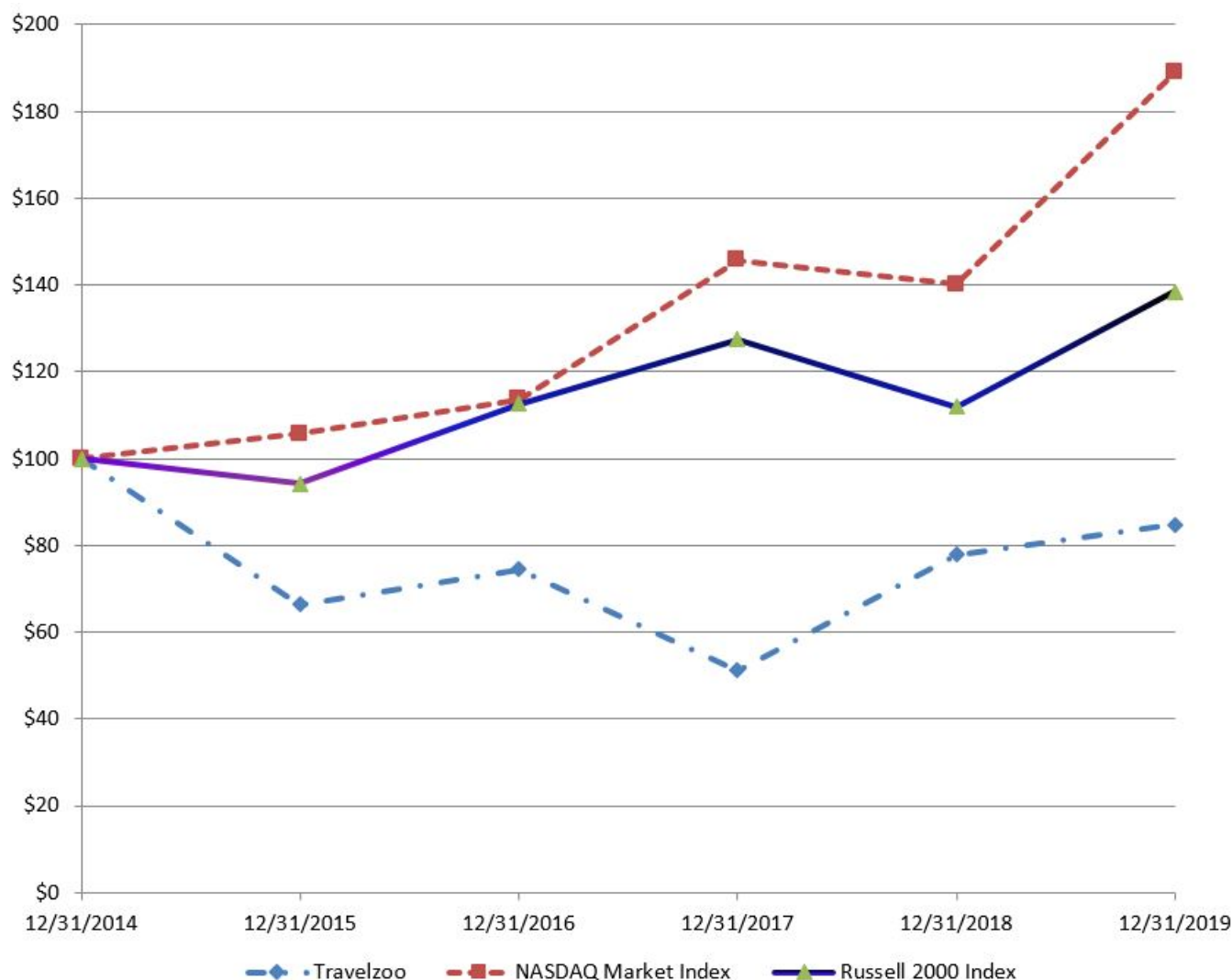
We repurchased 200,000 shares of our equity securities during the three months ended December 31, 2019.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Shares that May Yet be Purchased Under the Programs (1)
October 1, 2019 - October 31, 2019	—	\$ —	—	—
November 1, 2019 - November 30, 2019	200,000	\$ 10.20	200,000	—
December 1, 2019 - December 31, 2019	—	\$ —	—	—
	<u>200,000</u>		<u>200,000</u>	

(1) On November 6, 2019, the Company entered into a Stock Repurchase Agreement (the "SRA") with Holger Bartel to repurchase an aggregate of 200,000 shares of the Company's common stock at a price of \$10.20 per share based on the 10-day volume weighted average price calculated using the VWAP function on Bloomberg, from the dates of October 22, 2019 through and including November 4, 2019, less 4.4%. The aggregate purchase price was \$2.0 million.

Performance Graph

The following graph compares, for the dates specified, the cumulative total stockholder return for Travelzoo, the NASDAQ Stock Market (U.S. companies) Index (the “NASDAQ Market Index”), and the Standard & Poor’s 500 Publishing Index (the “S&P 500 Publishing”). Measurement points are the last trading day of each of the Company’s fiscal years ended December 31, 2015, December 31, 2016, December 31, 2017, December 31, 2018, and December 31, 2019. The graph assumes that \$100 was invested on December 31, 2014 in the Common Stock of the Company, the NASDAQ Market Index and the S&P 500 Publishing and assumes reinvestment of any dividends. The stock price performance on the following graph is not indicative of future stock price performance.



Measurement Point	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Travelzoo	\$ 100	\$ 66	\$ 74	\$ 51	\$ 78	\$ 85
NASDAQ Market Index	\$ 100	\$ 106	\$ 114	\$ 146	\$ 140	\$ 189
Russell 2000 Index	\$ 100	\$ 94	\$ 113	\$ 127	\$ 112	\$ 139

Item 6. Selected Consolidated Financial Data

The following table presents selected consolidated financial data as of and for the five-year period ended December 31, 2019. Our past results of operations are not necessarily indicative of our future results of operations. The following selected consolidated financial data is qualified in its entirety by, and should be read in conjunction with, “Management's Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and the notes thereto included elsewhere herein.

Consolidated Statement of Operations Data:

	Year Ended December 31,				
	2019	2018	2017	2016	2015
	(In thousands, except per share data)				
Revenues	\$ 111,412	\$ 111,322	\$ 106,524	\$ 114,263	\$ 123,961
Income from operations	9,464	8,238	4,545	10,186	3,820
Income from continuing operations, net of taxes	4,155	4,661	1,592	6,007	8,523
Income from discontinued operations, net of taxes	—	—	1,938	624	2,341
Net income	\$ 4,155	\$ 4,661	\$ 3,530	\$ 6,631	\$ 10,864
Income per share—basic:					
Continuing operations	\$ 0.35	\$ 0.38	\$ 0.12	\$ 0.43	\$ 0.58
Discontinued operations	—	—	0.15	0.04	0.16
Net income per share	\$ 0.35	\$ 0.38	\$ 0.27	\$ 0.47	\$ 0.74
Income per share—diluted:					
Continuing operations	\$ 0.35	\$ 0.37	\$ 0.12	\$ 0.43	\$ 0.58
Discontinued operations	—	—	0.15	0.04	0.16
Net income per share	\$ 0.35	\$ 0.37	\$ 0.27	\$ 0.47	\$ 0.74
Shares used in per share calculation from continuing operations—basic	11,809	12,323	12,882	13,997	14,722
Shares used in per share calculation from discontinued operations—basic	11,809	12,323	12,882	13,997	14,722
Shares used in per share calculation from continuing operations—diluted	12,035	12,510	12,894	13,997	14,722
Shares used in per share calculation from discontinuing operations—diluted	12,035	12,510	12,894	13,997	14,722

Consolidated Balance Sheet Data:

	As of December 31,				
	2019	2018	2017	2016	2015
	(In thousands)				
Cash and cash equivalents	\$ 19,505	\$ 18,017	\$ 22,553	\$ 26,838	\$ 35,128
Working capital	\$ 1,116	\$ 6,356	\$ 7,646	\$ 14,643	\$ 16,046
Total assets	\$ 54,538	\$ 43,424	\$ 45,672	\$ 53,530	\$ 68,579
Stockholders' equity	\$ 10,863	\$ 14,059	\$ 13,078	\$ 18,064	\$ 21,387

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information in this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based upon current expectations, assumptions, estimates and projections about Travelzoo and our industry. These forward-looking statements are subject to the many risks and uncertainties that exist in our operations and business environment that may cause actual results, performance or achievements of Travelzoo to be different from those expected or anticipated in the forward-looking statements. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as "may", "will", "should", "estimates", "predicts", "potential", "continue", "strategy", "believes", "anticipates", "plans", "expects", "intends", and similar expressions are intended to identify forward-looking statements. Travelzoo's actual results and the timing of certain events could differ significantly from those anticipated in such forward-looking statements. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those discussed elsewhere in this report in the section entitled "Risk Factors" and the risks discussed in our other SEC filings. The forward-looking statements included in this report reflect the beliefs of our management on the date of this report. Travelzoo undertakes no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other circumstances occur in the future.

Overview

Travelzoo® provides our 30 million members insider deals and one-of-a-kind experiences personally reviewed by one of our deal experts around the globe. With 22 offices worldwide, we have our finger on the pulse of outstanding travel, entertainment, and lifestyle experiences. For over 20 years we have worked in partnership with more than 5,000 top travel suppliers—our long-standing relationships give Travelzoo members access to irresistible deals.

Our publications and products include the *Travelzoo* website (travelzoo.com), the *Travelzoo* iPhone and Android apps, the *Travelzoo Top 20* email newsletter, and the *Newsflash* email alert service. We operate the *Travelzoo* Network, a network of third-party websites that list deals published by Travelzoo. The *Travelzoo* website includes *Local Deals* and *Getaway* listings that allow our members to purchase vouchers for deals from local businesses such as spas, hotels and restaurants. We receive a percentage of the face value of the voucher from the local businesses.

More than 5,000 companies use our services, including Air France, Air New Zealand, Alaska Airlines, British Airways, Cathay Pacific Airways, Emirates, Etihad, Fairmont Hotels and Resorts, Gate 1 Travel, Hawaiian Airlines, Hilton Hotels & Resorts, Hyatt Corporation, InterContinental Hotels Group, Lion World Travel, Lufthansa, Nexus Holidays, Princess Cruises, Royal Caribbean, Singapore Airlines, Starwood Hotels & Resorts, Tourism Australia, Tourism Ireland, and United Airlines.

In April 2018, we entered into an agreement with WeekenGO, a start-up company in Germany. WeekenGO uses new technology to promote vacation packages. We originally invested \$3.0 million in WeekenGO for a 25% ownership interest in April 2018. In April 2019, the Company invested an additional \$673,000 in WeekenGO and increased the Company's ownership interest to 26.6%. On February 11, 2020, Travelzoo signed an amended investment agreement with WeekenGO and agreed to invest an additional \$1.7 million to increase the Company's ownership interest to 33.7% if WeekenGO meets certain internal targets. See "Note 1: Summary of Significant Accounting Policies" to the accompanying consolidated financial statements for further information.

We have three operating segments based on geographic regions: Asia Pacific, Europe and North America. Asia Pacific consists of our operations in Australia, China, Hong Kong, Japan, Taiwan, and Southeast Asia. Europe consists of our operations in France, Germany, Spain, and the U.K. North America consists of our operations in Canada and the U.S. For the year ended December 31, 2019, Asia Pacific operations were 6% of revenues, European operations were 33% of revenues and North American operations were 61% of our total revenues. Financial information with respect to our business segments and certain financial information about geographic areas appears in Note 10 to the accompanying consolidated financial statements.

When evaluating the financial condition and operating performance of the Company, management focuses on financial and non-financial indicators such as growth in the number of members to the Company's newsletters, operating margin, growth in revenues in the absolute and relative to the growth in reach of the Company's publications measured as revenue per member and revenue per employee as a measure of productivity.

How We Generate Revenues

Our revenues are advertising revenues, consisting primarily of listing fees paid by travel, entertainment and local businesses to advertise their offers on Travelzoo's media properties. Listing fees are based on audience reach, placement, number of listings, number of impressions, number of clicks, number of referrals, or percentage of the face value of vouchers sold. Insertion orders are typically for periods between one month and twelve months and are not automatically renewed. Merchant agreements for *Local Deals* and *Getaways* advertisers are typically for twelve months and are not automatically renewed. We have two separate groups of our advertising products: Travel and Local.

Our Travel category of revenue includes the publishing revenue for negotiated high-quality deals from travel companies, such as hotels, airlines, cruises or car rentals and includes products such as *Top 20*, the Travelzoo website, *Newsflash*, Travelzoo Network as well as *Getaways* vouchers. The revenues generated from these products are based upon a fee for number of e-mails delivered to our audience, a fee for clicks delivered to the advertisers, a fee for placement of the advertising on our website or a fee based on a percentage of the face value of vouchers sold, hotel booking stays or other items sold. We recognize revenue upon delivery of the e-mails, delivery of the clicks, over the period of placement of the advertising, upon hotel booking stays and upon the sale of the vouchers or other items sold.

Our Local category of revenue includes the publishing revenue for negotiated high-quality deals from local businesses, such as restaurants, spas, shows, and other activities and includes *Local Deals* vouchers and entertainment offers (vouchers and direct bookings). The revenues generated from these products are based upon a percentage of the face value of vouchers or items sold or a fee for clicks delivered to the advertisers. We recognize revenue upon the sale of the vouchers, when we receive notification of the direct bookings or upon delivery of the clicks. The Company earns a fee for acting as an agent in these transactions, which is recorded on a net basis and is included in revenue upon completion of the voucher sale. Certain merchant contracts in foreign locations allow us to retain fees related to vouchers sold that are not redeemed by purchasers upon expiration, which we recognize as revenue based upon estimates at the time of sale.

Trends in Our Business

Our ability to generate revenues in the future depends on numerous factors such as our ability to sell more advertising to existing and new advertisers, our ability to increase our audience reach and advertising rates, our ability to have sufficient supply of hotels offered at competitive rates, and our ability to develop and launch new products.

Our current revenue model primarily depends on advertising fees paid primarily by travel, entertainment and local businesses. A number of factors can influence whether current and new advertisers decide to advertise their offers with us. We have been impacted and expect to continue to be impacted by external factors such as the shift from offline to online advertising, the relative condition of the economy, competition and the introduction of new methods of advertising, and the decline in consumer demand for vouchers. A number of factors will have impact on our revenue, such as the reduction in spending by travel intermediaries due to their focus on improving profitability, the trend towards mobile usage by consumers, the willingness of consumers to purchase the deals we advertise, and the willingness of certain competitors to grow their business unprofitably. In addition, we have been impacted and expect to continue to be impacted by internal factors such as introduction of new advertising products, hiring and relying on key employees for the continued maintenance and growth of our business and ensuring our advertising products continue to attract the audience that advertisers desire.

Existing advertisers may shift from one advertising service (e.g. *Top 20*) to another (e.g. *Local Deals* and *Getaways*). These shifts between advertising services by advertisers could result in no incremental revenue or less revenue than in previous periods depending on the amount purchased by the advertisers, and in particular with *Local Deals* and *Getaways*, depending on how many vouchers are purchased by members. In addition, we are anticipating a shift from our existing hotel revenue to commission-based hotel revenue as we expand the use of our hotel platform, which may result in lower revenue depending on volume of hotel bookings.

Local revenues have been and may continue to decline over time due to market conditions driven by competition and declines in consumer demand. In the last several years, we have seen a decline in the number of vouchers sold and a decrease in the average take rate earned by us from the merchants for voucher sold.

Our ability to continue to generate advertising revenue depends heavily upon our ability to maintain and grow an attractive audience for our publications. We monitor our members to assess our efforts to maintain and grow our audience reach. We obtain additional members and activity on our websites by acquiring traffic from Internet search companies. The costs to grow our audience have had, and we expect will continue to have, a significant impact on our financial results and can vary from period to period. We may have to increase our expenditures on acquiring traffic to continue to grow or maintain our reach of our publications due to competition. We continue to see a shift in the audience accessing our services through mobile

devices and social media. We are addressing this growing channel of our audience through development of our mobile applications and through marketing on social media channels. However, we will need to keep pace with technological change and this trend to further address this shift in the audience behavior in order to offset any related declines in revenue.

We believe that we can increase our advertising rates only if the reach of our publications increases. We do not know if we will be able to increase the reach of our publications. If we are able to increase the reach of our publications, we still may not be able to or want to increase rates given market conditions such as intense competition in our industry. We have not had any significant rate increase in recent years due to intense competition in our industry. Even if we increase our rates, the increased price may reduce the number of advertisers willing to advertise with us and, therefore, decrease our revenue. We may need to decrease our rates based on competitive market conditions and the performance of our audience in order to maintain or grow our revenue.

We do not know what our cost of revenues as a percentage of revenues will be in future periods. Our cost of revenues may increase if the face value of vouchers that we sell for *Local Deals* and *Getaways* increases or the total number of vouchers sold increases because we have credit card fees based upon face value of vouchers sold, customer service costs related to vouchers sold and refunds to members on vouchers sold. Our cost of revenues is also expected to increase due to our effort to develop our hotel booking platform. We expect fluctuations in cost of revenues as a percentage of revenues from quarter to quarter. Some of the fluctuations may be significant and have a material impact on our results of operations.

We do not know what our sales and marketing expenses as a percentage of revenue will be in future periods. Increased competition in our industry may require us to increase advertising for our brand and for our products. In order to increase the reach of our publications, we have to acquire a significant number of new members in every quarter and continue to promote our brand. One significant factor that impacts our advertising expenses is the average cost per acquisition of a new member. Increases in the average cost of acquiring new members may result in an increase of sales and marketing expenses as a percentage of revenue. We believe that the average cost per acquisition depends mainly on the advertising rates which we pay for media buys, our ability to manage our member acquisition efforts successfully, the regions we choose to acquire new members and the relative costs for that region, and the degree of competition in our industry. We may decide to accelerate our member acquisition for various strategic and tactical reasons and, as a result, increase our marketing expenses. We expect the average cost per acquisition to increase with our increased expectations for the quality of the members we acquire. We may see a unique opportunity for a brand marketing campaign that will result in an increase of marketing expenses. In addition, there may be a significant number of members that cancel or we may cancel their subscription for various reasons, which may drive us to spend more on member acquisition in order to replace the lost members. Further, we expect to continue our strategy over time to replicate our business model in selected foreign markets to result in a significant increase in our sales and marketing expenses and have a material adverse impact on our results of operations. For example, in August of 2015 we acquired our Asia Pacific business, since we intend on increasing our investment in audience in this region. Due to the continued desire to grow our business in Asia Pacific, Europe and North America, we expect relatively high level of sales and marketing expenses in the foreseeable future. We expect fluctuations in sales and marketing expenses as a percentage of revenue from year to year and from quarter to quarter. Some of the fluctuations may be significant and have a material impact on our results of operations. We expect increased marketing expense to spur continued growth in members and revenue in future periods; however, we cannot be assured of this due to the many factors that impact our growth in members and revenue. We expect to adjust the level of such incremental spending during any given quarter based upon market conditions, as well as our performance in each quarter. We have increased and may continue to increase our spending on sales and marketing to increase the number of our members and address the growing audience from mobile and social media channels, as well as to increase our analytic capabilities to continuously improve the presentation of our offerings to our audience.

We do not know what our product development expenses as a percentage of revenue will be in future periods. There may be fluctuations that have a material impact on our results of operations. Product development changes may lead to reductions of revenue based on changes in presentation of our offerings to our audience. We expect our efforts on developing our product and services will continue to be a focus in the future, which may lead to increased product development expenses. This increase in expense may be the result of an increase in headcount, the compensation related to existing headcount and the increased use of professional services. We expect our continued expansion into foreign markets and development of new advertising formats to result in a significant additional increase in our product development expenses. We expect to incur additional costs related to the development of our hotel platform capabilities, which we are developing, in part, to address the shift to mobile devices. We also may increase our investment in product development to ensure our products are suited for different regions such as Asia Pacific. In addition, we expect to incur additional costs related to the development of our search capabilities of our website and mobile applications.

We do not know what our general and administrative expenses as a percentage of revenue will be in future periods. There may be fluctuations that have a material impact on our results of operations. We expect our headcount to continue to increase in the future. The Company's headcount is one of the main drivers of general and administrative expenses. Therefore, we expect our absolute general and administrative expenses to continue to increase. We expect our continued expansion into foreign markets to result in an increase in our general and administrative expenses. We expect an increase in professional fees for various initiatives.

We do not know what our income taxes will be in future periods. There may be fluctuations that have a material impact on our results of operations. Our income taxes are dependent on numerous factors such as the geographic mix of our taxable income, federal and state and foreign country tax law and regulations and changes thereto, the determination of whether valuation allowances for certain tax assets are required or not, audits of prior years' tax returns resulting in adjustments, resolution of uncertain tax positions and different treatment for certain items for tax versus books, such as the disposition of our Asia Pacific business in 2009 and the acquisition of our Asia Pacific business in 2015. We expect fluctuations in our income taxes from year to year and from quarter to quarter. Some of the fluctuations may be significant and have a material impact on our results of operations.

With respect to the 2019 Novel Coronavirus outbreak specifically, we currently expect that our first quarter 2020 financial results may be negatively impacted. Additionally, we expect the 2019 Novel Coronavirus will continue to negatively impact our business beyond the first quarter of 2020, but the extent and duration of such impact in the long term is largely uncertain as it is dependent on future developments that cannot be accurately predicted at this time, including but not limited to the severity and transmission rate of the virus, the extent and effectiveness of containment actions taken, including mobility restrictions, and the impact of these and other factors on travel behavior.

The key elements of our growth strategy include building a travel and lifestyle brand with a large, high-quality user base and offering our users products that keep pace with consumer preference and technology, such as the trend toward mobile usage by consumers. We expect to continue our efforts to grow; however, we may not grow or we may experience slower growth. Some examples of our efforts to expand our business internationally since our inception in the U.S. have been expansion to the U.K. in 2005, Canada in 2006, Germany in 2006, France in 2007, and Spain in 2008. In addition, from 2007 through 2009 we began operations in Asia Pacific, including in Australia, China, Hong Kong, Japan, Taiwan, and Southeast Asia. We also have launched new products to grow our revenue, such as *Local Deals* in 2010, *Getaways* in 2011, as well as our mobile application launches in 2011 and 2012. In late 2012, we bought an online hotel platform to assist in our development of a product to better serve hotels and to facilitate the development of our hotel platform. We have also increased our spending on addressing the shift of our audience to mobile devices and social media.

In April 2018, the Company entered into an agreement with WeekenGO, a startup company in Germany. WeekenGO uses technology to promote vacation packages. Travelzoo originally invested \$3.0 million in WeekenGO for a 25% ownership interest in April 2018. In April 2019, the Company invested an additional \$673,000 in WeekenGO and increased the Company's ownership interest to 26.6%. On February 11, 2020, Travelzoo signed an amended investment agreement with WeekenGO and agreed to invest an additional \$1.7 million to increase the Company's ownership interest to 33.7% if WeekenGO meets certain internal targets.

We believe that we can sell more advertising if the market for online advertising continues to grow and if we can maintain or increase our market share. We believe that the market for advertising continues to shift from offline to online. We do not know if we will be able to maintain or increase our market share. We do not know if we will be able to increase the number of our advertisers in the future. We do not know if we will have market acceptance of our new products or whether the market will continue to accept our existing products.

Results of Operations

The following table sets forth, as a percentage of total revenues, the results from our operations for the periods indicated.

	2019	2018
Revenues	100.0%	100.0%
Cost of revenues	10.6	11.0
Gross profit	89.4	89.0
Operating expenses:		
Sales and marketing	54.2	52.6
Product development	6.2	8.1
General and administrative	20.5	20.9
Total operating expenses	80.9	81.6
Income from operations	8.5	7.4
Other income (loss), net	(0.5)	—
Income before income taxes	8.0	7.4
Income tax expense	4.3	3.2
Net income	3.7%	4.2%

Operating Metrics

The following table sets forth operating metrics in Asia Pacific, Europe and North America:

	Years Ended December 31,	
	2019	2018
Asia Pacific		
Total members (1)	3,645,000	3,629,000
Average cost per acquisition of a new member	\$ 3.67	\$ 2.51
Revenue per member (2)	\$ 1.79	\$ 2.17
Revenue per employee (3)	\$ 79	\$ 92
Mobile application downloads	834,000	774,000
Social media followers	613,000	598,000
Europe		
Total members (1)	9,077,000	8,762,000
Average cost per acquisition of a new member	\$ 3.16	\$ 2.59
Revenue per member (2)	\$ 4.21	\$ 4.24
Revenue per employee (3)	\$ 251	\$ 244
Mobile application downloads	2,076,000	1,853,000
Social media followers	898,000	885,000
North America		
Total members (1)	17,705,000	17,469,000
Average cost per acquisition of a new member	\$ 2.84	\$ 2.10
Revenue per member (2)	\$ 3.89	\$ 3.87
Revenue per employee (3)	\$ 360	\$ 356
Mobile application downloads	3,693,000	3,430,000
Social media followers	3,263,000	3,138,000
Consolidated		
Total members (1)	30,308,000	29,732,000
Average cost per acquisition of a new member	\$ 3.04	\$ 2.16
Revenue per member (2)	\$ 3.75	\$ 3.79
Revenue per employee (3)	\$ 267	\$ 264
Mobile application downloads	6,603,000	6,057,000
Social media followers	4,774,000	4,621,000

- (1) Members represent individuals who are signed up to receive one or more of our free email publications that present our travel, entertainment and local deals.
- (2) Annual revenue divided by number of members at the beginning of the year.
- (3) Annual revenue divided by number of employees at the end of the year (in thousands).

Revenues

The following table sets forth the breakdown of revenues (in thousands) by category and segment. Travel revenue includes travel publications (*Top 20*, *Website*, *Newsflash*, *Travelzoo Network*), *Getaways* vouchers, and hotel platform and vacation packages. Local revenue includes *Local Deals* vouchers and entertainment offers (vouchers and direct bookings).

	Year Ended December 31,	
	2019	2018
Asia Pacific		
Travel	\$ 6,274	\$ 7,351
Local	216	508
Total Asia Pacific revenues	6,490	7,859
Europe		
Travel	32,081	30,856
Local	4,817	5,293
Total Europe revenues	36,898	36,149
North America		
Travel	57,863	56,145
Local	10,161	11,169
Total North America revenues	68,024	67,314
Consolidated		
Travel	96,218	94,352
Local	15,194	16,970
Total revenues	\$ 111,412	\$ 111,322

Asia Pacific

Asia Pacific revenues decreased \$1.4 million or 17% in 2019 compared to 2018. This decrease was primarily due to the decrease in Travel revenues, the decrease in Local revenues and a \$206,000 negative impact from foreign currency movements relative to the U.S. dollar. The decrease in Travel revenues of \$887,000 was primarily due to a decrease of number of emails sent. The decrease in Local revenues of \$276,000 was primarily due to the decreased number of *Local Deals* vouchers sold.

Europe

Europe revenues increased \$749,000 or 2% in 2019 compared to 2018. This increase was primarily due to the increase in Travel revenues, the decrease in Local revenues and a \$1.8 million negative impact from foreign currency movements relative to the U.S. dollar. The increase in Travel revenue of \$2.9 million was primarily due to the increased number of emails sent. The decrease in Local revenues of \$292,000 was primarily due to the decreased number of *Local Deals* vouchers sold.

North America

North America revenues increased \$710,000 or 1% in 2019 compared to 2018. This increase was primarily due to the increase in Travel revenues offset by the decrease in Local revenue. The increase in Travel revenue of \$1.7 million was primarily due to the increased number of emails sent. The decrease in Local revenues of \$1.0 was primarily due to the decreased number of *Local Deals* vouchers sold.

For 2019 and 2018, none of our customers accounted for 10% or more of our revenue.

Cost of Revenues

Cost of revenues consists primarily of network expenses, including fees we pay for co-location services and depreciation and maintenance of network equipment, payments made to third-party partners of the *Travelzoo Network*, amortization of capitalized website development costs, credit card fees, certain estimated refunds to members and customer service costs associated with vouchers we sell and hotel bookings, and salary expenses associated with network operations and customer

service staff. Cost of revenues was \$11.9 million and \$12.3 million for the years ended December 31, 2019 and 2018, respectively.

Cost of revenue decreased \$379,000 in 2019 compared to 2018. This decrease was primarily due to the decrease in payments made to third-party partners of the *Travelzoo Network*.

Operating Expenses

Sales and Marketing

Sales and marketing expenses consist primarily of advertising and promotional expenses, salary and related expenses associated with sales, marketing and production staff, expenses related to our participation in industry conferences, and public relations expenses. Sales and marketing expenses were \$60.3 million and \$58.5 million for 2019, and 2018, respectively. Advertising expenses accounted for 17% and 14%, respectively, of total sales and marketing expenses and consisted primarily of online advertising, which we refer to as traffic acquisition cost and member acquisition costs. The goal of our advertising was to acquire new members for our e-mail products, increase the traffic to our websites and increase brand awareness.

Sales and marketing expenses increased \$1.8 million in 2019 compared to 2018. The increase was primarily due to a \$2.1 million increase in member acquisition costs, offset partially by a \$462,000 decrease in facility costs.

Product Development

Product development expenses consist primarily of salary and related expenses for software development staff, fees for professional services, software maintenance and amortization and facilities costs. Product development expenses were \$6.9 million and \$9.0 million for 2019 and 2018, respectively.

Product development expenses decreased \$2.1 million in 2019 compared to 2018 primarily due to the decrease in salary and employee related expenses as the result of a decrease in headcount.

General and Administrative

General and administrative expenses consist primarily of salary and related expenses for administrative and executive staff, fees for professional services, rent, bad debt expense, amortization of intangible assets, and general office expense. General and administrative expenses were \$22.8 million and \$23.3 million for each of the years ended 2019 and 2018, respectively.

General and administrative expenses decreased \$480,000 in 2019 compared to 2018, reflecting a \$836,000 decrease in professional service expenses which was offset by a \$218,000 increase in software and license costs.

Other Income (Loss)

Other income (loss) consisted primarily of foreign exchange transactions gains and losses, our share of investment gains and losses and amortization of basis differences, interest income earned on cash, cash equivalents and restricted cash as well as interest expense.

Other income (loss) was (\$515,000) and \$48,000 for 2019 and 2018, respectively. Other income decreased \$563,000 from 2018 to 2019 primarily due to our share of investment losses and amortization of basis differences from our equity investment in WeekenGO in 2019, offset partially by the sublease income from our Austin office.

Income Taxes

Our income is generally taxed in the U.S., Canada and U.K. Our income tax provision reflects federal, state and country statutory rates applicable to our worldwide income, adjusted to take into account expenses that are treated as having no recognizable tax benefit. Income tax expense was \$4.8 million and \$3.6 million for 2019 and 2018, respectively. Our effective tax rate was 54% and 44% for 2019 and 2018, respectively.

Our effective tax rate increased for the year ended December 31, 2019 compared to the year ended December 31, 2018, primarily due to the geographical mix of income of worldwide taxable income including foreign net operating losses from Asia Pacific that are not benefited. See Note 5 to the accompanying consolidated financial statements for more information on our effective tax rate.

Segment Information

Asia Pacific

	Year Ended December 31,	
	2019	2018
	(In thousands)	
Revenues	\$ 6,490	\$ 7,859
(Loss) from operations	\$ (7,488)	\$ (6,322)
(Loss) from operations as a % of revenues	(115)%	(80)%

Asia Pacific net revenues decreased \$1.4 million in 2019 compared to 2018 (see “Revenues” above). Asia Pacific expenses decreased \$203,000 from 2018 to 2019. This decrease was primarily due to a \$503,000 decrease of salary expense, offset partially by a \$303,000 increase in member acquisition costs.

Foreign currency movements relative to the U.S. dollar negatively impacted our local currency loss from our operations in Asia Pacific by approximately \$136,000 for 2019. Foreign currency movements relative to the U.S. dollar positively impacted our local currency loss from our operations in Asia Pacific by approximately \$127,000 for 2018.

Europe

	Year Ended December 31,	
	2019	2018
	(In thousands)	
Revenues	\$ 36,898	\$ 36,149
Income from operations	\$ 4,461	\$ 4,973
Income from operations as a % of revenues	12%	14%

Europe net revenues increased \$749,000 in 2019 compared to 2018 (see “Revenues” above). Europe expenses increased \$1.3 million from 2018 to 2019 primarily due to increased marketing costs.

Foreign currency movements relative to the U.S. dollar negatively impacted our local currency income from our operations in Europe by approximately \$207,000 and \$181,000 for 2019 and 2018, respectively.

North America

	Year Ended December 31,	
	2019	2018
	(In thousands)	
Revenues	\$ 68,024	\$ 67,314
Income from operations	\$ 12,491	\$ 9,587
Income from operations as a % of revenues	18%	14%

North America net revenues increased \$710,000 in 2019 compared to 2018 (see “Revenues” above). North America expenses decreased \$2.2 million from 2018 to 2019 primarily due to a \$1.7 million decrease in salary and employee related expenses, \$742,000 decrease in professional service expenses, a \$584,000 decrease in customer service costs and a \$498,000 decrease in trade and brand marketing expenses, offset partially by a \$1.2 million increase in member acquisition costs.

Liquidity and Capital Resources

As of December 31, 2019, we had \$19.5 million in cash and cash equivalents, of which \$14.8 million was held outside the U.S. in certain of our foreign operations. If these assets are distributed to the U.S., we may be subject to additional U.S. taxes in certain circumstances. We have not provided for any repatriation taxes and currently have the intent to leave such cash and cash equivalents in the foreign countries. Cash and cash equivalents increased from \$18.0 million as of December 31, 2018 primarily as a result of cash provided by operating activities, offset partially by cash used for repurchases of our common stock and our equity investment in WeekenGO. We expect that cash on hand will be sufficient to provide for working capital needs for at least the next twelve months.

	Year Ended December 31,	
	2019	2018
	(In thousands)	
Net cash provided by operating activities	\$ 11,236	\$ 5,317
Net cash used in investing activities	(1,147)	(3,685)
Net cash used in financing activities	(9,106)	(5,292)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	266	(880)
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 1,249	\$ (4,540)

Net cash provided by operating activities is net income adjusted for certain non-cash items and changes in assets and liabilities. Net cash provided by operating activities was \$11.2 million for 2019, which consisted of net income of \$4.2 million, adjustments for non-cash items of \$3.8 million and a \$3.2 million increase in cash from changes in operating assets and liabilities. Adjustments for non-cash items primarily consisted of a \$1.3 million of depreciation and amortization expense on property and equipment, a \$993,000 of stock-based compensation expense and \$821,000 for our share of WeekenGO losses, amortization of basis differences and currency translation adjustment. The increase in cash from changes in operating assets and liabilities primarily consisted of a \$3.1 million increase in accounts payable.

Net cash provided by operating activities was \$5.3 million for 2018, which consisted of a net income of \$4.7 million, adjustments for non-cash items of \$2.5 million, offset partially a \$1.9 million decrease in cash from changes in operating assets and liabilities. Adjustments for non-cash items primarily consisted of a \$1.8 million of depreciation and amortization expense on property and equipment and a \$915,000 of stock-based compensation expense. The decrease in cash from changes in operating assets and liabilities primarily consisted of a \$1.5 million increase in accounts receivable.

Cash paid for income taxes, net of refunds received in 2019 and 2018, was \$4.7 million and \$4.3 million, respectively.

Net cash used in investing activities for 2019 and 2018 was \$1.1 million and \$3.7 million, respectively. The cash used in investing activities in 2019 was primarily due to \$673,000 investment in WeekenGO and \$474,000 in purchases of property and equipment. The cash used in investing activities in 2018 was primarily due to \$3.1 million investment in WeekenGO and \$752,000 in purchases of property and equipment, offset partially by \$150,000 proceeds from sale of property and equipment.

Net cash used in financing activities for 2019 and 2018 was \$9.1 million and \$5.3 million, respectively. Net cash used in financing activities for the year ended December 31, 2019 was primarily due to \$10.8 million used in repurchases of our common stock, offset partially by \$1.7 million of proceeds from the issuance of common stock, net of tax paid for the net share settlement. Net cash used in financing activities for the year ended December 31, 2018 was primarily due to \$5.3 million cash used in repurchases of our common stock.

See Note 4 to the accompanying consolidated financial statements for information on the unexchanged promotional share settlements and related cash program.

Although we have settled the states unclaimed property claims with all states, we may still receive inquiries from certain potential Netsurfers promotional stockholders that had not provided their state of residence to us by April 25, 2004. Therefore, we are continuing our voluntary program under which we make cash payments to individuals related to the promotional shares for individuals whose residence was unknown by us and who establish that they satisfied the conditions to receive shares of Netsurfers, and who failed to submit requests to convert their shares into shares of Travelzoo within the required time period. This voluntary program is not available for individuals whose promotional shares have been escheated to a state by us.

Our capital requirements depend on a number of factors, including market acceptance of our products and services, the amount of our resources we devote to the development of new products, cash payments related to former stockholders of Netsurfers, expansion of our operations, and the amount of resources we devote to promoting awareness of the Travelzoo brand. Since the inception of the voluntary program under which we make cash payments to people who establish that they were former stockholders of Netsurfers, and who failed to submit requests to convert their shares into shares of Travelzoo within the required time period, we have incurred expenses of \$2.9 million. While future payments for this program are expected to decrease, the total cost of this voluntary program is still undeterminable because it is dependent on our stock price and on the number of valid requests ultimately received.

Consistent with our growth, we have experienced fluctuations in our cost of revenues, sales and marketing expenses and our general and administrative expenses, including increases in product development costs, and we anticipate that these increases will continue for the foreseeable future. We believe cash on hand will be sufficient to pay such costs for at least the next twelve months. In addition, we will continue to evaluate possible investments in businesses, products and technologies, the consummation of any of which would increase our capital requirements.

Although we currently believe that we have sufficient capital resources to meet our anticipated working capital and capital expenditure requirements for at least the next twelve months, unanticipated events and opportunities or a less favorable than expected development of our business with one or more of advertising formats may require us to sell additional equity or debt securities or establish new credit facilities to raise capital in order to meet our capital requirements.

If we sell additional equity or convertible debt securities, the sale could dilute the ownership of our existing stockholders. If we issue debt securities or establish a new credit facility, our fixed obligations could increase, and we may be required to agree to operating covenants that would restrict our operations. We cannot be sure that any such financing will be available in amounts or on terms acceptable to us.

Failure to secure necessary financing in order to complete a purchase or applicable transaction. For example, we may be unable to secure the financing necessary to pay off the promissory notes for the JFC transaction by their due date. This would mean we would have to use our operating cash or would be subject to the Sellers' rights of recourse pursuant to the promissory notes.

If the development of our business is less favorable than expected, we may decide to significantly reduce the size of our operations and marketing expenses in certain markets with the objective of reducing cash outflow.

The information set forth under "Note 4 — Commitments and Contingencies" and "Note 13: Leases" to the accompanying consolidated financial statements included in Part II, Item 8 of this report is incorporated herein by reference. Litigation and claims against the Company may result in legal defense costs, settlements or judgments that could have a material impact on our financial condition.

The following summarizes our principal contractual commitments as of December 31, 2019 (in thousands):

	Gross Operating Lease Commitments	Sublease Income	Net Operating Lease Commitments	Purchase Obligations	Total Commitments
2020	\$ 5,440	\$ (344)	\$ 5,096	\$ 4	\$ 5,100
2021	3,790	(351)	3,439	27	3,466
2022	2,426	(357)	2,069	19	2,088
2023	1,927	(271)	1,656	—	1,656
2024	1,038	—	1,038	—	1,038
Thereafter	—	—	—	—	—
Total	\$ 14,621	\$ (1,323)	\$ 13,298	\$ 50	\$ 13,348

We also have contingencies related to net unrecognized tax benefits, including interest, of approximately \$359,000 as of December 31, 2019. See Note 5 to the accompanying consolidated financial statements for further information.

Critical Accounting Policies and Estimates

We believe that there are a number of accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management's judgments and estimates. These significant accounting policies relate to revenue recognition, reserve for member refunds,

allowance for doubtful accounts, income taxes and loss contingencies. These policies, and our procedures related to these policies, are described in detail below.

Revenue Recognition

On January 1, 2018, the Company adopted Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), using the modified retrospective transition method applied to those contracts which were not completed as of January 1, 2018.

Under Topic 606, revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

The Company generates revenues primarily by delivering advertising on the *Travelzoo* website, in the *Top 20* email newsletter, in *Newsflash* and from the *Travelzoo Network*. The Company also generates transaction-based revenues from the sale of vouchers through our *Local Deals* and *Getaways* products and operation of hotel booking platform and vacation packages. The Company's disaggregated revenues are included in "Note 10: Segment Reporting and Significant Customer Information".

For fixed-fee website advertising, the Company recognizes revenues ratably over the contracted placement period.

For *Top 20* email newsletter and other email products, the Company recognizes revenues when the emails are delivered to its members.

The Company offers advertising on a cost-per-click basis, which means that an advertiser pays the Company only when a user clicks on an ad on *Travelzoo* properties or *Travelzoo Network* members' properties. For these customers, the Company recognizes revenues each time a user clicks on the ad.

The Company also offers advertising on other bases, such as cost-per-impression, which means that an advertiser pays the Company based on the number of times their advertisement is displayed on *Travelzoo* properties, email advertisement, *Travelzoo Network* properties, or social media properties. For these customers, the Company recognizes revenues each time an ad is displayed or email delivered.

For transaction based revenues, including products such as *Local Deals*, *Getaways*, hotel platform and vacation packages, the Company evaluates whether it is the principal (i.e., report revenue on a gross basis) versus an agent (i.e., report revenue on a net basis). The Company reports transaction revenue on a net basis because the supplier is primarily responsible for providing the underlying service and we do not control the service provided by the supplier prior to its transfer to the customer.

For *Local Deals* and *Getaways* products, the Company earns a fee for acting as an agent for the sale of vouchers that can be redeemed for services with third-party merchants. Revenues are presented net of the amounts due to the third-party merchants for fulfilling the underlying services. Certain merchant contracts allow the Company to retain the proceeds from unredeemed vouchers. With these contracts, the Company estimates the value of vouchers that will ultimately not be redeemed and records the estimate in the same period as the voucher sale.

Commission revenue related to our hotel platform is recognized ratably over the period of guest stay, net of an allowance for cancellations based upon historical patterns. For arrangements for booking non-cancelable reservations where the Company's performance obligation is deemed to be the successful booking of a hotel reservation, we record revenue for the commissions upon completion of the hotel booking.

The Company's contracts with customers may include multiple performance obligations in which the Company allocates revenues to each performance obligation based on its standalone selling price. The Company determines standalone selling price based on its overall pricing objectives, taking into consideration the type of services, geographical region of the customers, normal rate card pricing and customary discounts. Standalone selling price is generally determined based on the prices charged to customers when the product is sold separately.

The Company relies upon the following practical expedients and exemptions allowed for in the Accounting Standards Codification ("ASC") 606. The Company expenses sales commissions when incurred because the amortization period would be one year or less. These costs are recorded in sales and marketing expenses. In addition, the Company does not disclose the value of unsatisfied performance obligations for (a) contracts with an original expected length of one year or less and (b) contracts for which it recognizes revenues at the amount to which it has the right to invoice for services performed.

Reserve for Member Refunds

We record an estimated reserve for member refunds based on our historical experience at the time revenue is recorded for *Local Deals* and *Getaway* voucher sales. We accrue costs associated with refunds in accrued expenses on the consolidated balance sheets. We consider many key factors such as the historical refunds based upon the time lag since the sale, historical reasons for refunds, time period that remains until the deal expiration date, any changes in refund procedures and estimates of redemptions and breakage. Should any of these factors change, the estimates made by management will also change, which could impact the level of our future reserves for member refunds. Specifically, if the financial condition of our advertisers, the businesses that are providing the vouchered services, were to deteriorate, affecting their ability to provide the services to our members, additional reserves for member refunds may be required.

Estimated member refunds that are determined to be recoverable from the merchant and the portion of which represents our fee from the merchant are recorded in the consolidated statements of operations as a reduction to revenue. Estimated member refunds that are determined not to be recoverable from the merchant are presented as a cost of revenue. If our judgments regarding estimated member refunds are inaccurate, reported results of operations could differ from the amount we previously accrued.

Allowance for Doubtful Accounts

We record a provision for doubtful accounts based on our historical experience of write-offs and a detailed assessment of our accounts receivable and allowance for doubtful accounts. In estimating the provision for doubtful accounts, management considers the age of the accounts receivable, our historical write-offs, the creditworthiness of the advertiser, the economic conditions of the advertiser's industry, and general economic conditions, among other factors. Should any of these factors change, the estimates made by management will also change, which could impact the level of our future provision for doubtful accounts. Specifically, if the financial condition of our advertisers were to deteriorate, affecting their ability to make payments, additional provision for doubtful accounts may be required.

Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the progress or closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest. In addition to local country tax laws and regulations, our income tax rate depends on the extent that our foreign earnings are taxed by the U.S. through new provisions under the Tax Act such as the new GILTI tax and BEAT or as a result of our indefinite reinvestment assertion. Indefinite reinvestment is determined by management's judgment about and intentions concerning our future operations.

Our effective tax rates have differed from the statutory rate primarily due to the tax impact of foreign operations, state taxes, certain benefits realized related to stock option activities, credits, the extent that our earnings are indefinitely reinvested outside the U.S. and tax asset valuation allowance determinations, including on certain loss carryforwards. For the years ended December 31, 2019 and 2018, our effective tax rates were 54% and 44%, respectively. Our future effective tax rates could be materially impacted by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, changes in the deferred tax assets or liabilities, existing or new uncertain tax matters that may arise and require changes in tax reserves, changes in tax asset valuation allowance determinations, changes in our judgment about whether certain foreign earnings are indefinitely reinvested outside the U.S., or changes in tax laws, regulations, and accounting principles. In addition, we are subject to the continuous examination of our income tax returns by the IRS and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. See Note 5 to the accompanying consolidated financial statements for further information.

Loss Contingencies

We are involved in claims, suits, and proceedings arising from the ordinary course of our business. We record a provision for a liability when we believe that it is both probable that a liability has been incurred, and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. Such claim proceedings are inherently unpredictable and subject to significant uncertainties, some of which are beyond our control. Should any of these

estimates and assumptions change or prove to have been incorrect, it could have a material impact on our results of operations, financial position and cash flows. Please refer to Note 4 to the accompanying consolidated financial statements for further information regarding our loss contingencies.

Recent Accounting Pronouncements

See “Note 1 — Summary of Significant Accounting Policies” to the accompanying consolidated financial statements included in this report, regarding our significant accounting policies and any impact of certain recent accounting pronouncements on our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We believe that our potential exposure to changes in market interest rates is not material. The Company is not a party to any derivative transactions. We invest in highly liquid investments with short maturities. Accordingly, we do not expect any material loss from these investments.

Our operations in Canada expose us to foreign currency risk associated with agreements being denominated in Canadian Dollars. Our operations in Europe expose us to foreign currency risk associated with agreements being denominated in British Pound Sterling and Euros. Our operations in Asia Pacific expose us to foreign currency risk associated with agreements being denominated in Australian dollars, Chinese Yuan, Hong Kong dollar, Japanese Yen and Taiwanese Yuan. We are exposed to foreign currency risk associated with fluctuations of these currencies as the financial position and operating results of our operations in Asia Pacific, Canada and Europe are translated into U.S. dollars for consolidation purposes. We do not use derivative instruments to hedge these exposures. We have performed a sensitivity analysis as of December 31, 2019, using a modeling technique that measures the change in the fair values arising from a hypothetical 10% adverse movement in the levels of foreign currency exchange rates relative to the U.S. dollar with all other variables held constant. The foreign currency exchange rates we used were based on market rates in effect at December 31, 2019. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in an incremental \$131,000 foreign exchange loss for the year ended December 31, 2019.

TRAVELZOO
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Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Travelzoo

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Travelzoo and its subsidiaries (the Company) as of December 31, 2019, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 20, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the accompanying financial statements, the Company has changed its method of accounting for leases in 2019 due to the adoption of Accounting Standard Update (ASU) 2016-02, *Leases* (Topic 842) and the related amendments.

Basis for Opinion

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

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

/s/ RSM US LLP

We have served as the Company's auditor since 2019.

San Jose, California
March 20, 2020

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Travelzoo

Opinion on the Internal Control Over Financial Reporting

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

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2019, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the year then ended and the related notes to the consolidated financial statements, and our report dated March 20, 2020 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ RSM US LLP

San Jose, California
March 20, 2020

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Travelzoo

Opinion on the Financial Statements

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

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
San Jose, California
March 8, 2019

We served as the Company's auditor from 2016 to 2019.

TRAVELZOO
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	December 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,505	\$ 18,017
Accounts receivable, less allowance for doubtful accounts of \$1,126 and \$692 as of December 31, 2019 and 2018, respectively	13,006	12,646
Income tax receivable	989	389
Deposits	114	167
Prepaid expenses and other	2,496	1,947
Total current assets	36,110	33,166
Deposits and other	820	685
Deferred tax assets	2,051	1,645
Restricted cash	1,205	1,444
Operating lease right-of-use assets	8,886	—
Property and equipment, net	2,982	3,790
Investment in WeekenGO	2,484	2,694
Total assets	\$ 54,538	\$ 43,424
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 20,406	\$ 17,129
Accrued expenses and other	7,477	7,853
Deferred revenue	896	1,339
Operating lease liabilities	5,301	—
Income tax payable	914	489
Total current liabilities	34,994	26,810
Long-term tax liabilities	359	418
Long-term operating lease liabilities	8,238	—
Long-term deferred rent and other	84	2,137
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value per share (5,000 shares authorized; none issued)	—	—
Common stock, \$0.01 par value (20,000 and 40,000 shares authorized as of December 31, 2019 and 2018, respectively; 11,479 and 11,962 shares issued and outstanding as of December 31, 2019 and 2018, respectively)	115	120
Additional paid-in capital	—	—
Retained earnings	14,200	18,153
Accumulated other comprehensive loss	(3,452)	(4,214)
Total stockholders' equity	10,863	14,059
Total liabilities and stockholders' equity	\$ 54,538	\$ 43,424

See accompanying notes to consolidated financial statements.

TRAVELZOO
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Year Ended December 31,	
	2019	2018
Revenues	\$ 111,412	\$ 111,322
Cost of revenues	11,889	12,268
Gross profit	99,523	99,054
Operating expenses:		
Sales and marketing	60,350	58,519
Product development	6,885	8,993
General and administrative	22,824	23,304
Total operating expenses	90,059	90,816
Income from operations	9,464	8,238
Other income (loss), net	(515)	48
Income before income taxes	8,949	8,286
Income tax expense	4,794	3,625
Net income	\$ 4,155	\$ 4,661
Net income per share—basic	\$ 0.35	\$ 0.38
Net income per share—diluted	\$ 0.35	\$ 0.37
Shares used in computing basic net income per share	11,809	12,323
Shares used in computing diluted net income per share	12,035	12,510

See accompanying notes to consolidated financial statements.

TRAVELZOO
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Year Ended December 31,	
	2019	2018
Net income	\$ 4,155	\$ 4,661
Other comprehensive income (loss):		
Foreign currency translation adjustment	762	(617)
Total comprehensive income	<u>\$ 4,917</u>	<u>\$ 4,044</u>

See accompanying notes to consolidated financial statements.

TRAVELZOO
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balances, January 1, 2018	12,462	\$ 125	\$ —	\$ 16,550	\$ (3,597)	\$ 13,078
Stock-based compensation expense	—	—	915	—	—	915
Repurchase and retirement of common stock	(500)	(5)	(915)	(4,372)	—	(5,292)
Foreign currency translation adjustment	—	—	—	—	(617)	(617)
Net income	—	—	—	4,661	—	4,661
Cumulative effect adjustment from the adoption of ASC 606	—	—	—	1,314	—	1,314
Balances, December 31, 2018	11,962	120	—	18,153	(4,214)	14,059
Stock-based compensation expense	—	—	993	—	—	993
Repurchase and retirement of common stock	(737)	(5)	(2,703)	(8,108)	—	(10,816)
Proceeds from exercise of stock options, net of share settlement	254	—	1,710	—	—	1,710
Foreign currency translation adjustment	—	—	—	—	762	762
Net income	—	—	—	4,155	—	4,155
Balances, December 31, 2019	11,479	\$ 115	\$ —	\$ 14,200	\$ (3,452)	\$ 10,863

See accompanying notes to consolidated financial statements.

TRAVELZOO
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 4,155	\$ 4,661
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,318	1,828
Stock-based compensation	993	915
Deferred income tax	258	(336)
Loss on equity investment in WeekenGO	821	218
Net foreign currency effect	80	42
Other	325	(119)
Changes in operating assets and liabilities:		
Accounts receivable	(728)	(1,519)
Income tax receivable	(600)	129
Prepaid expenses and other	(626)	104
Accounts payable	3,061	(25)
Accrued expenses and other	(242)	—
Income tax payable	373	(392)
Other long-term liabilities	2,048	(189)
Net cash provided by operating activities	11,236	5,317
Cash flows from investing activities:		
Purchases of property and equipment	(474)	(752)
Proceeds from sale of property and equipment	—	150
Investment in WeekenGO	(673)	(3,083)
Net cash used in investing activities	(1,147)	(3,685)
Cash flows from financing activities:		
Proceeds from exercise of stock options, net of share settlement	1,710	—
Repurchase of common stock	(10,816)	(5,292)
Net cash used in financing activities	(9,106)	(5,292)
Effect of exchange rate changes on cash and cash equivalents	266	(880)
Net increase (decrease) in cash, cash equivalents and restricted cash	1,249	(4,540)
Cash, cash equivalents and restricted cash at beginning of year	19,461	24,001
Cash, cash equivalents and restricted cash at end of year	\$ 20,710	\$ 19,461
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net	\$ 4,720	\$ 4,276
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 4,066	\$ —
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows	\$ 5,625	\$ —

See accompanying notes to consolidated financial statements.

TRAVELZOO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

(a) The Company and Basis of Presentation

Travelzoo® provides our 30 million members insider deals and one-of-a-kind experiences personally reviewed by one of our deal experts around the globe. With 22 offices worldwide, we have our finger on the pulse of outstanding travel, entertainment, and lifestyle experiences. For over 20 years we have worked in partnership with more than 5,000 top travel suppliers—our long-standing relationships give Travelzoo members access to irresistible deals. Travelzoo's revenues are generated primarily from advertising fees.

Our publications and products include the *Travelzoo* website, the *Travelzoo* iPhone and Android apps, the *Travelzoo Top 20* email newsletter, the *Newsflash* email alert service, and the *Travelzoo Network*, a network of third-party websites that list travel deals published by Travelzoo. The *Travelzoo* website includes *Local Deals* and *Getaway* listings that allow our members to purchase vouchers for deals from local businesses such as spas, hotels and restaurants. We receive a percentage of the face value of the voucher from the local businesses.

Ralph Bartel, who founded Travelzoo (the "Company") and who is a Director of the Company is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro Capital Inc. ("Azzurro"). As of December 31, 2019, Azzurro is the Company's largest stockholder, holding approximately 47.8% of the Company's outstanding shares. Azzurro currently holds a proxy given to it by Holger Bartel that provides it with a total of 48.2% of the voting power.

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") in the United States ("U.S."). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the U.S. Significant estimates included in the consolidated financial statements and related notes include revenue recognition, income taxes, stock-based compensation, loss contingencies, and useful lives of property and equipment. Actual results could differ materially from those estimates.

In April 2018, the Company entered into an agreement with WeekenGO GmbH ("WeekenGo"), a start-up company in Germany. WeekenGO uses new technology to promote vacation packages. Travelzoo originally invested \$3.0 million in WeekenGO for a 25% ownership interest in April 2018. The Company accounts for this private company investment using the equity method of accounting by recording its share of the results of WeekenGO in Other income (expense), net on a one-quarter lag basis. In accounting for the investment, the Company allocated \$1.0 million of its purchase price to net tangible assets and allocated approximately \$485,000 of the purchase to technology-related intangible assets to be amortized over a three-year life. The remaining \$1.5 million of the purchase price was allocated to goodwill. In April 2019, the Company invested an additional \$673,000 in WeekenGO and increased the Company's ownership interest to 26.6%. On February 11, 2020, Travelzoo signed an amended investment agreement with WeekenGO and agreed to invest an additional \$1.7 million to increase the Company's ownership interest to 33.7% if WeekenGO meets certain internal targets.

The Company recorded \$882,000 and \$218,000 in 2019 and 2018, respectively, for its share of WeekenGO losses, amortization of basis differences and currency translation adjustment.

(b) Revenue Recognition

On January 1, 2018, the Company adopted Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), using the modified retrospective transition method applied to those contracts which were not completed as of January 1, 2018. The cumulative effect of the revenue accounting changes made to the Company's consolidated balance sheet as of January 1, 2018 primarily consists of a decrease in accounts payable related to the merchant payable of \$1.6 million and a decrease of \$270,000 of net deferred tax assets for a net cumulative effect increase of retained earnings of \$1.3 million. These changes were due primarily to the new revenue guidance requirement to recognize revenue related to unredeemed Local Deals and Getaway vouchers for selected deals, included in our Europe segment, based upon estimates at the time of sale of the vouchers rather than the Company's past practice of waiting to recognize this revenue until expiration of the legal obligation.

Under Topic 606, revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

The Company generates revenues primarily by delivering advertising on the *Travelzoo* website, in the *Top 20* email newsletter, in *Newsflash* and from the *Travelzoo Network*. The Company also generates transaction-based revenues from the sale of vouchers through our *Local Deals* and *Getaways* products and operation of hotel booking platform and vacation packages. The Company's disaggregated revenues are included in "Note 10: Segment Reporting and Significant Customer Information".

For fixed-fee website advertising, the Company recognizes revenues ratably over the contracted placement period.

For *Top 20* email newsletter and other email products, the Company recognizes revenues when the emails are delivered to its members.

The Company offers advertising on a cost-per-click basis, which means that an advertiser pays the Company only when a user clicks on an ad on *Travelzoo* properties or *Travelzoo Network* members' properties. For these customers, the Company recognizes revenues each time a user clicks on the ad.

The Company also offers advertising on other bases, such as cost-per-impression, which means that an advertiser pays the Company based on the number of times their advertisement is displayed on *Travelzoo* properties, email advertisement, *Travelzoo Network* properties, or social media properties. For these customers, the Company recognizes revenues each time an ad is displayed or email delivered.

For transaction based revenues, including products such as *Local Deals*, *Getaways*, hotel platform and vacation packages, the Company evaluates whether it is the principal (i.e., report revenue on a gross basis) versus an agent (i.e., report revenue on a net basis). The Company reports transaction revenue on a net basis because the supplier is primarily responsible for providing the underlying service and we do not control the service provided by the supplier prior to its transfer to the customer.

For *Local Deals* and *Getaways* products, the Company earns a fee for acting as an agent for the sale of vouchers that can be redeemed for services with third-party merchants. Revenues are presented net of the amounts due to the third-party merchants for fulfilling the underlying services. Certain merchant contracts allow the Company to retain the proceeds from unredeemed vouchers. With these contracts, the Company estimates the value of vouchers that will ultimately not be redeemed and records the estimate in the same period as the voucher sale.

Commission revenue related to our hotel platform is recognized ratably over the period of guest stay, net of an allowance for cancellations based upon historical patterns. For arrangements for booking non-cancelable reservations where the Company's performance obligation is deemed to be the successful booking of a hotel reservation, the Company records revenue for the commissions upon completion of the hotel booking.

The Company's contracts with customers may include multiple performance obligations in which the Company allocates revenues to each performance obligation based on its standalone selling price. The Company determines standalone selling price based on its overall pricing objectives, taking into consideration the type of services, geographical region of the customers, normal rate card pricing and customary discounts. Standalone selling price is generally determined based on the prices charged to customers when the product is sold separately.

The Company relies upon the following practical expedients and exemptions allowed for in the Topic 606. The Company expenses sales commissions when incurred because the amortization period would be one year or less. These costs are recorded in sales and marketing expenses. In addition, the Company does not disclose the value of unsatisfied performance obligations for (a) contracts with an original expected length of one year or less and (b) contracts for which it recognizes revenues at the amount to which it has the right to invoice for services performed.

Deferred revenue primarily consists of customer prepayments and undelivered performance obligations related to the Company's contracts with multiple performance obligations. At December 31, 2018, \$1.3 million was recorded as deferred revenue, of which \$1.1 million was recognized as revenue in 2019. At December 31, 2019, the deferred revenue balance was \$896,000.

(c) Reserve for Refunds to Members

The Company records an estimated reserve for refunds to members based on our historical experience at the time revenue is recorded for *Local Deals* and *Getaway* voucher sales. We accrue costs associated with refunds in accrued expenses on the consolidated balance sheets. We consider many key factors such as the historical refunds based upon the time lag since the sale, historical reasons for refunds, time period that remains until the deal expiration date, any changes in refund procedures and estimates of redemptions and breakage. Should any of these factors change, the estimates made by management will also change, which could impact the level of our future reserve for refunds to member. Specifically, if the financial condition of our advertisers, the business that is providing the vouchered service, were to deteriorate, affecting their ability to provide the services to our members, additional reserves for refunds to members may be required.

Estimated member refunds that are determined to be recoverable from the merchant are recorded in the consolidated statements of operations as a reduction to revenue. We accrue costs associated with refunds in accrued expenses on the consolidated balance sheets. Estimated member refunds that are determined not to be recoverable from the merchant, are presented as a cost of revenue. If our judgments regarding estimated member refunds are inaccurate, reported results of operations could differ from the amount we previously accrued.

(d) Allowance for Doubtful Accounts

The Company records a provision for doubtful accounts based on its historical experience of write-offs and a detailed assessment of our accounts receivable and allowance for doubtful accounts. In estimating the provision for doubtful accounts, management considers the age of the accounts receivable, historical write-offs, the creditworthiness of the advertiser, the economic conditions of the advertiser's industry, and general economic conditions, among other factors. Should any of these factors change, the estimates made by management will also change, which could impact the level of the future provision for doubtful accounts. Specifically, if the financial condition of our advertisers were to deteriorate, affecting their ability to make payments, additional provision for doubtful accounts may be required.

(e) Advertising Costs

Advertising costs are expensed as incurred. Online advertising is expensed as incurred over the period the advertising is displayed. Advertising costs amounted to \$10.3 million and \$8.5 million for years ended December 31, 2019 and 2018, respectively.

(f) Operating Leases

The Company determines if an arrangement contains a lease at inception. Operating lease right-of-use ("ROU") assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The lease payments used to determine the operating lease assets may include lease incentives and stated rent increases. The Company does not include options to extend or terminate until it is reasonably certain that the option will be exercised. Lease expense is recognized on a straight-line basis over the lease term. The Company uses its incremental borrowing rate based on the information available at the commencement date in determining the lease liabilities as the Company's leases generally do not provide an implicit rate. The Company elected not to recognize leases with an initial term of 12 months or less on its consolidated balance sheets.

The Company's leases are reflected in operating lease ROU assets, operating lease liabilities and long-term operating lease liabilities in our accompanying consolidated balance sheet as of December 31, 2019. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The Company also has a real estate lease agreement which is subleased to a third party. The Company recognizes sublease income in Other income (expense), net on a straight-line basis over the lease term in its consolidated statements of operations.

(g) Stock-Based Compensation

The Company accounts for its employee stock options under the fair value method, which requires stock-based compensation to be estimated using the fair value on the date of grant using an option-pricing model. The value of the portion of the award that is expected to vest is recognized as expense over the related employees' requisite service periods in the Company's consolidated statements of operations. See Note 8 to the accompanying consolidated financial statements for a further discussion on stock-based compensation.

(h) Foreign Currency

All foreign subsidiaries use the local currency of their respective countries as their functional currency. Assets and liabilities are translated into U.S. dollars at exchange rates prevailing at the balance sheet dates. Revenues, costs and expenses are translated into U.S. dollars at average exchange rates for the period. Gains and losses resulting from translation are recorded as a component of accumulated other comprehensive income (loss). Realized gains and losses from foreign currency transactions are recognized as gain or loss on foreign currency in the consolidated statements of operations. Total foreign currency transaction losses of \$64,000 for 2019, and total foreign currency transaction net gain of \$135,000 for 2018, are included in Other income (loss), net in the Company's consolidated statements of operations.

(i) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized for deductible temporary differences, along with net operating loss carryforwards and credit carryforwards, if it is more likely than not that the tax benefits will be realized. To the extent a deferred tax asset cannot be recognized under the preceding criteria, valuation allowances must be established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Significant judgment is required in evaluating the Company's uncertain tax positions and determining the Company's provision for income taxes. Although the Company believes it has adequately reserved for its uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. The Company adjusts these reserves in light of changing facts and circumstances, such as the progress or closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest.

(j) Comprehensive Income

Comprehensive income consists of two components, net income and other comprehensive income (loss). Other comprehensive income (loss) refers to certain changes in equity that are excluded from net income. For the Company, other comprehensive income (loss) includes foreign currency translation adjustments. Total comprehensive income (loss) for all periods presented has been disclosed in the consolidated statements of comprehensive loss.

(k) Certain Risks and Uncertainties

Our business is subject to risks associated with our ability to attract and retain advertisers and offer products or services on compelling terms to our members. We are exposed to the risk of the travel and tourism industry and the risk of online commerce and payment security systems.

The Company's cash, cash equivalents and accounts receivable are potentially subject to concentration of credit risk. Cash and cash equivalents are placed with financial institutions that management believes are of high credit quality. The accounts receivable are derived from revenue earned from customers located in the U.S. and internationally. As of December 31, 2019 and 2018, the Company did not have any customers that accounted for 10% or more of accounts receivable.

(l) Cash, Cash Equivalents and Restricted Cash

Cash equivalents consist of highly liquid investments with maturities of three months or less on the date of purchase. Restricted cash includes cash and cash equivalents that is restricted through legal contracts, regulations or our intention to use the cash for a specific purpose. Our restricted cash primarily relates to refundable deposits and funds held in escrow.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets to the total amounts shown in the statements of cash flows (in thousands):

	December 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 19,505	\$ 18,017
Restricted cash	1,205	1,444
Total cash, cash equivalents and restricted cash in the consolidated statements of cash flows	\$ 20,710	\$ 19,461

(m) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. The Company also includes in fixed assets the capitalized cost of internal-use software and website development, including software used to upgrade and enhance its website and processes supporting the Company's business in accordance with the framework established by the FASB accounting guidance for accounting for the cost of computer software developed or obtained for internal use and accounting for website development costs. Costs incurred in the planning stage and operating stage are expensed as incurred while costs incurred in the application development stage and infrastructure development stage are capitalized, assuming such costs are deemed to be recoverable.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are 3 to 5 years for computer hardware and software, capitalized internal-use software and website development costs, and office equipment and office furniture. The Company depreciates leasehold improvements over the term of the lease or the estimated useful life of the asset, whichever is shorter.

(n) Impairment of Long-Lived Assets

The Company accounts for long-lived assets in accordance with the accounting standard relating to impairment of long-lived assets, which requires an impairment loss to be recognized on assets to be held and used if the carrying amount of a long-lived asset group is not recoverable from its undiscounted cash flows. The amount of the impairment loss is measured as the difference between the carrying amount and the fair value of the asset group. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. No impairment loss was recognized during years ended December 31, 2019 and 2018.

(o) Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which provides new guidance on the measurement of credit losses for financial assets measured at amortized cost, which includes accounts receivable. The new guidance replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. This update is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For Smaller Reporting Companies, the standard will be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Entities are required to apply this update on a modified retrospective basis with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact on its financial position and results of operations.

In August 2018, the FASB issued ASU No. 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract." The new guidance required a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. The guidance is effective for calendar-year public business entities in 2020. Early adoption is permitted. The Company does not expect the adoption to have a material impact on its financial position, results of operations and cash flows.

(p) Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued an ASU 2016-02, "Leases," codified in Accounting Standard Codification 842 ("ASC 842"), which requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability on its balance sheet. The Company adopted ASC 842 on January 1, 2019, using the alternative modified transition method with no restatement of prior periods or cumulative adjustment to retained earnings. Upon adoption, the Company elected the package of transition practical expedients: (i) not to reassess prior conclusions related to whether any expired or existing contracts are or contain leases; (ii) not to reassess the lease classification for any expired or existing leases; (iii) not to reassess initial direct costs for existing leases; and (iv) not to reassess certain land easements. Upon adoption of the standard effective January 1, 2019, the Company recognized an operating lease right-of-use assets of approximately \$13.4 million and a corresponding operating lease liability of approximately \$16.0 million, which included reclassifying existing deferred rent liability of \$2.6 million to operating lease right-of-use assets.

Note 2: Net Income Per Share

Basic net income per share is computed using the weighted-average number of common shares outstanding for the period. Diluted net income per share is computed by adjusting the weighted-average number of common shares outstanding for the effect of dilutive potential common shares outstanding during the period. Potential common shares included in the diluted calculation consist of incremental shares issuable upon the exercise of outstanding stock options calculated using the treasury stock method.

The following table sets forth the calculation of basic and diluted net income per share (in thousands, except per share amounts):

	Year Ended December 31,	
	2019	2018
Net income	\$ 4,155	\$ 4,661
Weighted average common shares—basic	11,809	12,323
Effect of dilutive securities: stock options	226	187
Weighted average common shares—diluted	12,035	12,510
Net income per share—basic	\$ 0.35	\$ 0.38
Net income per share—diluted	\$ 0.35	\$ 0.37

For the years ended December 31, 2019 and 2018, options to purchase 200,000 and 200,000 shares of common stock, respectively, were not included in the computation of diluted net income per share because the effect would have been anti-dilutive.

Note 3: Balance Sheet Components

Prepaid expenses and other consist of the following (in thousands):

	December 31,	
	2019	2018
Prepaid expenses	\$ 2,303	\$ 1,780
Other current assets	193	167
Total prepaid expenses and other	\$ 2,496	\$ 1,947

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

	December 31,	
	2019	2018
Computer hardware and software	\$ 3,427	\$ 3,353
Office equipment and office furniture	8,148	7,814
Capitalized internal-use software and website development	4,390	4,383
Leasehold improvements	6,247	6,140
	22,212	21,690
Less accumulated depreciation and amortization	(19,230)	(17,900)
Total	\$ 2,982	\$ 3,790

Depreciation expense was \$1.2 million and \$1.6 million for the years ended December 31, 2019 and 2018, respectively.

Amortization of capitalized internal-use software and website development costs was \$157,000 and \$247,000 for the years ended December 31, 2019 and 2018, respectively.

Changes to the allowance for doubtful accounts and reserve for member refunds are as follows (in thousands):

	Allowance for doubtful accounts	Reserve for member refunds
Balance at January 1, 2018	\$ 315	\$ 530
Additions — charged to costs and expenses, or contra revenue	482	688
Deductions — recoveries of amounts previously reserved	(104)	—
Deductions — write-offs or refunds	(1)	(839)
Balance at December 31, 2018	692	379
Additions — charged to costs and expenses, or contra revenue	610	1,007
Deductions — recoveries of amounts previously reserved	(147)	—
Deductions — write-offs or refunds	(29)	(1,093)
Balance at December 31, 2019	\$ 1,126	\$ 293

Local Deals and *Getaway* merchant payable included in accounts payable was \$13.7 million and \$11.8 million, as of December 31, 2019 and 2018, respectively.

Accrued expenses and other consist of the following (in thousands):

	December 31,	
	2019	2018
Accrued advertising expense	\$ 1,774	\$ 1,875
Accrued compensation expense	2,955	2,813
Reserve for member refunds	293	382
Other accrued expenses	2,455	2,266
Deferred rent	—	517
Total accrued expenses and other	\$ 7,477	\$ 7,853

At December 31, 2019 and 2018, accounts receivable, accounts payable and accrued expenses are not measured at fair value; however, the Company believes that the carrying amounts of these assets and liabilities are a reasonable estimate of their fair value because of their relative short maturity.

Note 4: Commitments and Contingencies

From time to time, the Company is subject to various claims and legal proceedings, either asserted or unasserted, that arise in the ordinary course of business. The Company accrues for legal contingencies if the Company can estimate the potential liability and if the Company believes it is probable that the case will be ruled against it. If a legal claim for which the Company did not accrue is resolved against it, the Company would record the expense in the period in which the ruling was made. The Company believes that the likelihood of an ultimate amount of liability, if any, for any pending claims of any type (alone or combined) that will materially affect the Company's financial position, results of operations or cash flows is remote. The ultimate outcome of any litigation is uncertain, however, and unfavorable outcomes could have a material negative impact on the Company's financial condition and operating results. Regardless of outcome, litigation can have an adverse impact on the Company because of defense costs, negative publicity, diversion of management resources and other factors.

The Company was formed as a result of a combination and merger of entities founded by the Company's principal stockholder, Ralph Bartel. In 2002, Travelzoo.com Corporation was merged into Travelzoo. Under and subject to the terms of the merger agreement, holders of promotional shares of Travelzoo.com Corporation ("Netsurfers") who established that they had satisfied certain prerequisite qualifications were allowed a period of 2 years following the effective date of the merger to receive one share of Travelzoo in exchange for each share of common stock of Netsurfers. In 2004, two years following the effective date of the merger, certain promotional shares remained unexchanged. As the right to exchange these promotional shares expired, no additional shares were reserved for issuance. Thereafter, the Company began to offer a voluntary cash program for those who established that they had satisfied certain prerequisite qualifications for Netsurfers promotional shares as further described below.

During 2010 through 2014, the Company became subject to unclaimed property audits of various states in the United States related to the above unexchanged promotional shares and completed settlements with all states. Although the Company has settled the unclaimed property claims with all states, the Company may still receive inquiries from certain potential Netsurfers promotional stockholders that had not provided their state of residence to the Company by April 25, 2004. Therefore, the Company is continuing its voluntary program under which it makes cash payments to individuals related to the promotional shares for individuals whose residence was unknown by the Company and who establish that they satisfy the original conditions required for them to receive shares of Netsurfers, and who failed to submit requests to convert their shares into shares of Travelzoo within the required time period. This voluntary program is not available for individuals whose promotional shares have been escheated to a state by the Company, except those individuals for which their residence was unknown to the Company. The Company did not make any material payments for 2019 and 2018.

The total cost of this program cannot be reliably estimated because it is based on the ultimate number of valid requests received and future levels of the Company's common stock price. The Company's common stock price affects the liability because the amount of cash payments under the program is based in part on the recent level of the stock price at the date valid requests are received. The Company does not know how many of the requests for shares originally received by Netsurfers in 1998 were valid, but the Company believes that only a portion of such requests were valid. In order to receive payment under this voluntary program, a person is required to establish that such person validly held shares in Netsurfers.

The Company leases office space in Australia, Canada, China, France, Germany, Hong Kong, Japan, Singapore, Spain, the U.K., and the U.S. under operating leases which expire between February 2020 and November 2024. Rent expense was \$5.8 million for each of the years ended December 31, 2019 and 2018, respectively. The Company's rental income from sublease was approximately \$347,000 and \$123,000 for the years ended December 31, 2019 and 2018. See Note 13 - Leases for more information.

The Company has purchase commitments aggregating approximately \$50,000 as of December 31, 2019, which represent the minimum obligations the Company has under agreements with certain suppliers. These minimum obligations are less than the Company's projected use for those periods. Payments may be more than the minimum obligations based on actual use.

Note 5: Income Taxes

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act includes significant changes to the U.S. corporate income tax system including: a federal corporate rate reduction from 35% to 21%; limitations on the deductibility of interest expense and executive compensation; creation of the base erosion anti-abuse tax ("BEAT"), a new minimum tax; and the transition of U.S. international taxation from a worldwide tax system to a modified territorial tax system. The change to a modified territorial tax system resulted in a one-time U.S. tax liability on those earnings which have not previously been repatriated to the U.S. (the "Transition Tax"), with future distributions not subject to U.S. federal income tax when repatriated. A majority of the provisions in the Tax Act are effective January 1, 2018.

In response to the Tax Act, the SEC staff issued guidance on accounting for the tax effects of the Tax Act. The guidance provides a one-year measurement period for companies to complete the accounting. The Company reflected the income tax effects of those aspects of the Tax Act for which the accounting is complete. To the extent a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, a company should record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

In connection with the Company's initial analysis of the impact of the Tax Act, the Company has recorded a provisional estimate of discrete net tax expense of \$508,000 for the period ended December 31, 2017. This discrete expense consists of provisional estimates of zero expense for the Transition Tax, \$173,000 net benefit for the decrease in the Company's deferred tax liability on unremitted foreign earnings, and \$681,000 net expense for remeasurement of the Company's deferred tax assets and liabilities for the corporate rate reduction.

During the year ended December 31, 2018, we completed our accounting for the income tax effects of the Tax Act. We did not recognize any additional discrete net tax expense in addition to the provisional amounts recorded at December 31, 2017 for the enactment-date effects of the Tax Act, for a total of \$508,000 of discrete net tax expense.

As of December 31, 2019, the Company is permanently reinvested in certain Non-U.S. subsidiaries and does not have a deferred tax liability related to its undistributed foreign earnings. The estimated amount of the unrecognized deferred tax liability attributed to future withholding taxes on dividend distributions of undistributed earnings for certain non-U.S. subsidiaries, which the Company intends to reinvest the related earnings indefinitely in its operations outside the U.S., is approximately \$484,000 at December 31, 2019.

The components of income before income tax expense are as follows (in thousands):

	Year Ended December 31,	
	2019	2018
U.S.	\$ 11,553	\$ 8,677
Foreign	(2,604)	(391)
	<u>\$ 8,949</u>	<u>\$ 8,286</u>

Income tax expense consists of current and deferred components categorized by federal, state and foreign jurisdictions, as shown below. The current provision is generally that portion of income tax expense that is currently payable to the taxing authorities. The Company makes estimated payments of these amounts during the year. The deferred tax provision (benefit) results from changes in the Company's deferred tax assets (future deductible amounts) and tax liabilities (future taxable amounts), which are presented in the table below:

	Current	Deferred	Total
	(In thousands)		
Year Ended December 31, 2019			
Federal	\$ 2,399	\$ 257	\$ 2,656
State	516	47	563
Foreign	1,539	36	1,575
	<u>\$ 4,454</u>	<u>\$ 340</u>	<u>\$ 4,794</u>
Year Ended December 31, 2018			
Federal	\$ 1,938	\$ (260)	\$ 1,678
State	650	22	672
Foreign	1,461	(186)	1,275
	<u>\$ 4,049</u>	<u>\$ (424)</u>	<u>\$ 3,625</u>

Income tax expense differed from the amounts computed by applying the U.S. federal statutory tax rate applicable to the Company's level of pretax income as a result of the following (in thousands):

	Year Ended December 31,	
	2019	2018
Federal tax at statutory rates	\$ 1,879	\$ 1,738
State taxes, net of federal income tax benefit	453	586
Change of valuation allowance	2,032	1,565
Uncertain tax positions	61	(177)
Foreign income taxed at different rates	(261)	(273)
Foreign equity investment	172	—
Non-deductible expenses and other	458	186
Total income tax expense	\$ 4,794	\$ 3,625

The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2019	2018
Deferred tax assets:		
Net operating loss carryforwards	\$ 11,634	\$ 9,805
Operating lease liabilities	2,632	—
State income taxes	100	82
Accruals and allowances	327	292
Stock-based compensation	643	910
Unrealized foreign exchange losses	900	151
Deferred revenue	—	377
Total deferred tax assets	16,236	11,617
Valuation allowance	(11,634)	(9,723)
Total deferred tax assets net of valuation allowance	4,602	1,894
Deferred tax liabilities:		
Deferred revenue	(72)	—
Deferred rent	—	(80)
Operating lease right-of-use assets	(2,423)	—
Property, equipment and intangible assets	(56)	(169)
Total deferred tax liabilities	(2,551)	(249)
Net deferred tax assets	\$ 2,051	\$ 1,645

Changes in the deferred tax assets valuation allowance for the years ended December 31, 2018 and 2019 are as follows (in thousands):

	Balance at the beginning of the year	Charged (Credited) to expenses	Charged (Credited) to other account (*)	Balance at end of year
Deferred tax assets valuation allowance				
2018	\$ 9,249	1,565	(1,091)	\$ 9,723
2019	\$ 9,723	2,032	(121)	\$ 11,634

(*) Amounts not charged (credited) to expenses are charged (credited) to stockholder's equity or deferred tax assets (liabilities).

As of December 31, 2019, the Company has a valuation allowance of approximately \$11.6 million related to foreign net operating loss ("NOL") carryforwards of approximately \$47.3 million for which it is more likely than not that the tax benefit will not be realized. The amount of the valuation allowance represented an increase of approximately \$1.9 million over the

amount recorded as of December 31, 2018, and was due to the increase in foreign operating losses. If not utilized, the foreign NOL of \$26.6 million may be carried forward indefinitely, and \$20.7 million will expire at various times between 2020 and 2028.

The total amount of gross unrecognized tax benefits was \$178,000 as of December 31, 2019, of which up to \$152,000 would affect the Company's effective tax rate if realized. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits in 2018 and 2019 is as follows (in thousands):

Gross unrecognized tax benefits balance at January 1, 2018	\$	725
Increase related to current year tax positions		15
Settlements		(501)
Gross unrecognized tax benefits balance at December 31, 2018		239
Increase related to current year tax positions		7
Settlements		(68)
Gross unrecognized tax benefits balance at December 31, 2019	\$	178

The Company's policy is to include interest and penalties related to unrecognized tax positions in income tax expense. To the extent accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction in the overall income tax provision in the period that such determination is made. At December 31, 2019, the Company had approximately \$207,000 in accrued interest.

The Company files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Company is subject to U.S. federal and certain state tax examinations for certain years after 2011 and is subject to California tax examinations for years after 2006. The material foreign jurisdictions where the Company is subject to potential examinations by tax authorities are the France, Germany, Spain and United Kingdom for tax years after 2010.

Although the timing of initiation, resolution and/or closure of audits is highly uncertain, it is reasonably possible that the balance of the gross unrecognized tax benefits related to the method of computing income taxes in certain jurisdictions and losses reported on certain income tax returns could significantly change in the next 12 months. These changes may occur through settlement with the taxing authorities or the expiration of the statute of limitations on the returns filed. The Company is unable to estimate the range of possible adjustments to the balance of the gross unrecognized tax benefits.

Note 6: Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated balances of other comprehensive loss (in thousands):

	Year Ended December 31,	
	2019	2018
Beginning balance	\$ (4,214)	\$ (3,597)
Other comprehensive income (loss) due to foreign currency translation, net of tax	762	(617)
Ending balance	\$ (3,452)	\$ (4,214)

There were no amounts reclassified from accumulated other comprehensive income (loss) for the years ended December 31, 2019 and 2018. Accumulated other comprehensive income (loss) consists of foreign currency translation gain or loss.

Note 7: Employee Benefit Plan

The Company maintains a 401(k) Profit Sharing Plan & Trust (the "401(k) Plan") for its employees in the United States. The 401(k) Plan allows employees of the Company to contribute up to 80% of their eligible compensation, subject to certain limitations. Since 2006, the Company matches employee contributions up to \$1,500 per year. Employee contributions are fully vested upon contribution, whereas the Company's matching contributions are fully vested after the first year of service. The Company also has various defined contribution plans for its international employees. The Company's contributions to these benefit plans were approximately \$2.1 million and \$2.0 million for the years ended December 31, 2019 and 2018, respectively.

Note 8: Stock-Based Compensation and Stock Options

The Company accounts for its employee stock options under the fair value method, which requires stock-based compensation to be estimated using the fair value on the date of grant using an option-pricing model. The value of the portion of the award that is expected to vest is recognized on a straight-line basis as expense over the related employees' requisite service periods in the Company's consolidated statements of income.

In January 2012, the Company granted certain executives stock options to purchase 100,000 shares of common stock with an exercise price of \$28.98, of which 25,000 options vest and become exercisable annually starting on January 23, 2013. The options expire in January 2022. During 2014, 25,000 options were canceled and 25,000 options were forfeited upon the departure of an executive. During 2019, the remaining 50,000 options were canceled upon the departure of an executive. Stock-based compensation related to these options was fully expensed.

In September 2015, the Company granted an executive stock options to purchase 400,000 shares of common stock with an exercise price of \$8.07, of which 50,000 options became exercisable quarterly starting March 31, 2016. The options expire in September 2025. As of December 31, 2019, 400,000 options were vested and outstanding.

In March 2016, the Company granted certain executives stock options to purchase 150,000 shares of common stock with an exercise price of \$8.55, of which 37,500 options vest and become exercisable annually starting on March 7, 2017. The options expire in March 2026. In 2017, 37,500 options were forfeited and 12,500 options were canceled upon the departure of an executive and the compensation expense of \$19,000 was reversed. In 2018, 50,000 options were forfeited upon the departure of an executive and the compensation expense of \$59,000 was reversed. During 2019, the remaining 50,000 options were net exercised for 4,000 shares of common stock.

In October 2017, the Company granted an executive stock options to purchase 400,000 shares of common stock with an exercise price of \$6.95, of which 50,000 shares are exercisable quarterly starting March 31, 2018 and ending on December 31, 2019. The options expire in October 2027. During 2019, 250,000 options were exercised. As of December 31, 2019, 150,000 options were vested and outstanding. Total stock-based compensation related to these option grants was \$573,000 for 2019. Stock-based compensation related to these options was fully expensed as of December 31, 2019.

In April 2018, the Company granted an employee stock options to purchase 50,000 shares of common stock with an exercise price of \$10.50. The options vest in twelve equal installments. The first installment vested on April 26, 2018, and the remaining eleven installments vest from June 30, 2018 to December 31, 2020. During 2019, the Company recognized \$34,000 stock-based compensation and canceled the 50,000 options upon the departure of the employee.

In May 2018, the Company granted an employee options to purchase 50,000 shares of common stock with an exercise price of \$14.70, of which 12,500 options will vest and become exercisable annually starting on May 2019. As of December 31, 2019, 50,000 options were outstanding and 12,500 of these options was vested. As of December 31, 2019, there was approximately \$213,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 2.4 years.

In June 2018, the Company granted a nonemployee consultant options to purchase 100,000 shares of common stock with an exercise price of \$17.75, of which 20,000 options vested and became exercisable on June 8, 2018, 30,000 shares vest no later than July 31, 2018 if certain performance targets were met, and 50,000 shares vest no later than June 30, 2019 if certain performance targets are met. The Company used the contractual life when determining the value of this option. The performance targets for the 30,000 share options were not met by July 31, 2018 and the nonemployee consultant ceased to provide services to the Company. As a result, 80,000 unvested shares of options were forfeited and 20,000 vested options were canceled in 2018.

In June 2018, the Company granted an employee options to purchase 50,000 shares of common stock with an exercise price of \$16.65, of which 12,500 options will vest and become exercisable annually starting on June 2019. As of December 31, 2019, 50,000 options were outstanding and 12,500 of these options was vested. As of December 31, 2019, there was approximately \$206,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 2.5 years.

In May 2019, the Company granted an employee options to purchase 100,000 shares of common stock with an exercise price of \$19.28, of which 10,000 options vested and became exercisable in May 2019, 15,000 options vested and become exercisable in September 2019, and the remaining 75,000 will vest in three equal installments starting on May 20, 2021 and ending on May 20, 2023. As of December 31, 2019, 100,000 options were outstanding and 25,000 of these options were vested. As of December 31, 2019, there was approximately \$420,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 3.4 years.

The Company recorded \$993,000 and \$915,000 of stock-based compensation in general and administrative expenses for fiscal years 2019 and 2018, respectively.

The Company utilized the Black-Scholes option pricing model to value the stock options. The Company used an expected life as defined under the simplified method, which is using an average of the contractual term and vesting period of the stock options. The risk-free interest rate used for the award is based on the U.S. Treasury yield curve in effect at the time of grant. The Company accounted for forfeitures as they occur. The historical volatility was calculated based upon implied volatility of the Company's historical stock prices.

The fair value of 2019 and 2018 stock options was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2019	2018
Weighted-average fair value of options granted per share	\$ 8.78	\$ 6.63
Historical volatility	60%	46%
Risk-free interest rate	2.10%	2.84%
Dividend yield	—	—
Expected life in years	3.6	5.7

As of December 31, 2019, there was approximately \$419,000 of unrecognized stock-based compensation expense related to outstanding 2019 stock options, expected to be recognized over 3.4 and approximately \$418,000 of unrecognized stock-based compensation expense related to outstanding 2018 stock options, expected to be recognized over 2.4 years. There was no unrecognized stock-based compensation expense relating stock options granted prior to 2018.

Option activities during the years ended December 31, 2018 and 2019 were as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
				(In thousands)
Outstanding at January 1, 2018	950,000	\$ 8.75	8.48 years	
Option Granted	250,000	\$ 15.47		
Options forfeited and canceled	(150,000)	\$ 14.68		
Outstanding at December 31, 2018	1,050,000	\$ 9.50	7.53 years	
Option Granted	100,000	\$ 19.28		
Exercised options	(300,000)	\$ 7.22		
Options forfeited and canceled	(100,000)	\$ 19.74		
Outstanding at December 31, 2019	750,000	\$ 10.35	6.01 years	\$ 1,615
Exercisable and fully vested at December 31, 2019	600,000	\$ 8.57	6.22 years	\$ 1,615
Outstanding at December 31, 2019 and expected to vest thereafter	150,000	\$ 17.48	5.15 years	\$ —

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of years ended December 31, 2019 and 2018 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2019 and 2018. This amount changes based on the fair value of the Company's stock. The Company's policy is to issue shares from the authorized shares to fulfill stock option exercises.

Outstanding options at December 31, 2019 were as follows:

Exercise Price	Options Outstanding	Options Outstanding Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Options Outstanding and Exercisable	Options Exercisable Weighted-Average Remaining Contractual Life
\$ 8.07	400,000	5.75 years	\$ 8.07	400,000	5.75 years
\$ 6.95	150,000	7.84 years	\$ 6.95	150,000	7.84 years
\$ 14.70	50,000	8.37 years	\$ 14.70	12,500	8.37 years
\$ 16.65	50,000	3.47 years	\$ 16.65	12,500	3.47 years
\$ 19.28	100,000	4.39 years	\$ 19.28	25,000	4.39 years
	<u>750,000</u>			<u>600,000</u>	

Note 9: Stock Repurchase Program

The Company's stock repurchase programs assist in offsetting the impact of dilution from employee equity compensation and assist with capital allocation. Management is allowed discretion in the execution of the repurchase program based upon market conditions and consideration of capital allocation.

In March 2018, the Company announced a stock repurchase program authorizing the repurchase of up to 500,000 shares of the Company's outstanding common stock. During the year ended December 31, 2018, the Company repurchased 500,000 shares of common stock for an aggregate purchase price of \$5.3 million, which were retired and recorded as a reduction of additional paid-in capital until extinguished with the remaining amount reflected as a reduction of retained earnings.

In February 2019, the Company entered into a Stock Repurchase Agreement with Azzurro, a significant shareholder of the Company and repurchased 100,000 shares of the Company's common stock for an aggregate purchase price of \$1.6 million, which were retired and recorded as a reduction of additional paid-in capital until extinguished with the remaining amount reflected as a reduction of retained earnings.

In May 2019, the Company announced a stock repurchase program authorizing the repurchase of up to 1,000,000 shares of the Company's outstanding common stock. During the year ended December 31, 2019, the Company repurchased 436,369 shares of common stock for an aggregate purchase price of \$7.2 million, which were retired and recorded as a reduction of additional paid-in capital until extinguished with the remaining amount reflected as a reduction of retained earnings.

In November 2019, the Company entered into a SRA with Holger Bartel to repurchase an aggregate of 200,000 shares of the Company's common stock for an aggregate purchase price of \$2.0 million, which were retired and recorded as a reduction of additional paid-in capital until extinguished with the remaining amount reflected as a reduction of retained earnings.

Note 10: Segment Reporting and Significant Customer Information

The Company manages its business geographically and has three reportable operating segments: Asia Pacific, Europe and North America. Asia Pacific consists of the Company's operations in Australia, China, Hong Kong, Japan, and Southeast Asia. Europe consists of the Company's operations in France, Germany, Spain, and the U.K. North America consists of the Company's operations in Canada and the U.S.

Management relies on an internal management reporting process that provides revenue and segment operating income for making financial decisions and allocating resources. Management believes that segment revenues and operating income are appropriate measures of evaluating the operational performance of the Company's segments.

The following is a summary of operating results and assets by business segment (in thousands):

Year Ended December 31, 2019	Asia Pacific	Europe	North America	Consolidated
Revenues from unaffiliated customers	\$ 6,402	\$ 39,556	\$ 65,454	\$ 111,412
Intersegment revenues	88	(2,658)	2,570	—
Total net revenues	\$ 6,490	\$ 36,898	\$ 68,024	\$ 111,412
Operating income (loss)	\$ (7,488)	\$ 4,461	\$ 12,491	\$ 9,464

Year Ended December 31, 2018	Asia Pacific	Europe	North America	Consolidated
Revenues from unaffiliated customers	\$ 7,869	\$ 36,468	\$ 66,985	\$ 111,322
Intersegment revenues	(10)	(319)	329	—
Total net revenues	\$ 7,859	\$ 36,149	\$ 67,314	\$ 111,322
Operating income (loss)	\$ (6,322)	\$ 4,973	\$ 9,587	\$ 8,238

As of December 31, 2019	Asia Pacific	Europe	North America	Elimination	Consolidated
Long-lived assets	\$ 121	\$ 263	\$ 2,598	\$ —	\$ 2,982
Total assets	\$ 3,215	\$ 74,604	\$ 66,803	\$ (90,084)	\$ 54,538

As of December 31, 2018	Asia Pacific	Europe	North America	Elimination	Consolidated
Long-lived assets	\$ 145	\$ 313	\$ 3,332	\$ —	\$ 3,790
Total assets	\$ 3,811	\$ 62,942	\$ 62,433	\$ (85,762)	\$ 43,424

Revenue for each segment is recognized based on the customer location within a designated geographic region. Property and equipment are attributed to the geographic region in which the assets are located.

For the years ended December 31, 2019 and 2018, the Company did not have any customers that accounted for 10% or more of revenue. As of December 31, 2019 and 2018, the Company did not have any customers that accounted for 10% or more of accounts receivable.

The following table sets forth the breakdown of revenues by category and segment. Travel revenue includes travel publications (*Top 20*, *Website*, *Newsflash*, *Travelzoo Network*), *Getaway* vouchers and hotel platform. Local revenue includes *Local Deals* vouchers and entertainment offers (vouchers and direct bookings) (in thousands).

	Year Ended December 31,	
	2019	2018
Asia Pacific		
Travel	\$ 6,274	\$ 7,351
Local	216	508
Total Asia Pacific revenues	6,490	7,859
Europe		
Travel	32,081	30,856
Local	4,817	5,293
Total Europe revenues	36,898	36,149
North America		
Travel	57,863	56,145
Local	10,161	11,169
Total North America revenues	68,024	67,314
Consolidated		
Travel	96,218	94,352
Local	15,194	16,970
Total revenues	\$ 111,412	\$ 111,322

Revenue by geography is based on the billing address of the advertiser. Long-lived assets attributed to the U.S. and international geographies are based upon the country in which the asset is located or owned.

The following table sets forth revenue for individual countries that were 10% or more of total revenue (in thousands):

	Year Ended December 31,	
	2019	2018
Revenue		
United States	\$ 61,375	\$ 61,257
United Kingdom	19,961	21,034
Germany	12,176	12,257
Rest of the world	17,900	16,774
Total revenues	\$ 111,412	\$ 111,322

The following table sets forth long lived assets by geographic area (in thousands):

	December 31,	
	2019	2018
United States	\$ 2,359	\$ 3,035
Rest of the world	623	755
Total long lived assets	\$ 2,982	\$ 3,790

Note 11: Related Party Transactions

Ralph Bartel, who founded Travelzoo and who is a Director of the Company is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro Capital Inc. ("Azzurro"). As of December 31, 2019, Azzurro is the Company's largest stockholder, holding approximately 47.8% of the Company's outstanding shares. Azzurro currently holds a proxy given to it by Holger Bartel that provides it with a total of 48.2% of the voting power.

The Company granted Holger Bartel 400,000 stock options that vest through December 31, 2017 on September 28, 2015 and granted 400,000 stock options that vest through December 31, 2019 on October 30, 2017. On September 5, 2019, the Company granted 400,000 stock options that vest through December 31, 2021 on September 5, 2019. This grant is subject to approval by the shareholders of the Company at the 2020 annual meeting of shareholders and may be unwound if approval is not received. See Note 8 for further information. Holger Bartel is the brother of Ralph Bartel and is our Global Chief Executive Officer.

In April 2018, the Company entered into an agreement with WeekenGO, a start-up company in Germany. The Company originally invested \$3.0 million in WeekenGO for a 25% ownership interest in April 2018. In April 2019, the Company invested an additional \$673,000 in WeekenGO and increased the Company's ownership interest to 26.6%. On February 11, 2020, Travelzoo signed an amended investment agreement with WeekenGO and agreed to invest an additional \$1.7 million to increase the Company's ownership interest to 33.7% if WeekenGO meets certain internal targets.

WeekenGO signed a \$2.1 million insertion order for advertising with the Company in 2018. The Company's advertising revenues from WeekenGO in the years ended December 31, 2019 and 2018 were \$1.2 million and \$319,000, respectively. Accounts receivable from WeekenGO as of December 31, 2019 and 2018 were \$230,000 and \$58,000, respectively, included in Accounts Receivable in the Consolidated Balance Sheets.

On February 13, 2019, the Company entered into a SRA with Azzurro to repurchase an aggregate of 100,000 shares of the Company's common stock for an aggregate purchase price of \$1.6 million. The SRA provides that the purchase price is based on the five (5) day volume weighted average price calculated using the VWAP function on Bloomberg, from the dates of February 6, 2019 through and including February 12, 2019, minus a five percent (5%) discount. The Company's board of directors established a special committee (the "Special Committee"), consisting of independent and disinterested directors who engaged independent legal counsel and an independent financial advisor, to authorize the transaction.

On November 9, 2019, the Company entered into a SRA with Holger Bartel to repurchase an aggregate of 200,000 shares of the Company's common stock for an aggregate purchase price of \$2.0 million. The SRA provides that the purchase price is based on the 10-day volume weighted average price calculated using the VWAP function on Bloomberg, from the dates of October 22, 2019 through and including November 4, 2019, less 4.4%.

Note 12: Leases

The Company has operating leases for real estate and certain equipment. The Company leases office space in Australia, Canada, China, France, Germany, Hong Kong, Japan, Singapore, Spain, the U.K., and the U.S. under operating leases. Our leases have remaining lease terms ranging from less than one year to November 2024. Certain leases include one or more options to renew. In addition, we sublease certain real estate to a third party. All of our leases qualify as operating leases.

The following table summarizes the components of lease expense for the year ended December 31, 2019 (in thousands):

	Year Ended
	December 31, 2019
Operating lease cost	\$ 4,768
Short-term lease cost	815
Variable lease cost	1,242
Sublease income	(336)
Total lease cost	\$ 6,489

For the year ended December 31, 2019, cash payments against the operating lease liabilities totaled \$5.6 million. ROU assets obtained in exchange for lease obligations was \$4.1 million for the year ended December 31, 2019.

The following table summarizes the presentation in our consolidated balance sheet of our operating leases (in thousands):

	As of December 31, 2019
Assets:	
Operating lease right-of-use assets	\$ 8,886
Liabilities:	
Operating lease liabilities	\$ 5,301
Long-term operating lease liabilities	8,238
Total operating lease liabilities	\$ 13,539
Weighted average remaining lease term (years)	3.42
Weighted average discount rate	4.4%

Maturities of lease liabilities were as follows (in thousands):

Years ending December 31,	
2020	\$ 5,440
2021	3,790
2022	2,426
2023	1,927
2024	1,038
Thereafter	—
Total lease payments	14,621
Less interest	(1,082)
Present value of operating lease liabilities	\$ 13,539

Note 13: Unaudited Quarterly Information

The following represents unaudited quarterly financial data for 2019 and 2018 (in thousands, except per share amounts):

	Quarter Ended							
	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
Revenues	\$ 26,898	\$ 25,505	\$ 28,184	30,825	\$ 27,062	\$ 25,301	\$ 28,075	\$ 30,884
Cost of revenues	3,206	2,980	2,757	2,946	2,880	2,987	3,016	3,385
Gross profit	23,692	22,525	25,427	27,879	24,182	22,314	25,059	27,499
Operating expenses:								
Sales and marketing	15,154	14,233	15,357	15,606	13,974	13,375	15,628	15,542
Product development	1,905	1,478	1,799	1,703	1,799	2,297	2,386	2,511
General and administrative	5,778	5,600	5,847	5,599	5,620	5,928	5,967	5,789
Total operating expenses	22,837	21,311	23,003	22,908	21,393	21,600	23,981	23,842
Income from operations	855	1,214	2,424	4,971	2,789	714	1,078	3,657
Other income (loss), net	(135)	(138)	(143)	(99)	(52)	(91)	30	161
Income from operations before income taxes	720	1,076	2,281	4,872	2,737	623	1,108	3,818
Income tax expense	1,319	770	953	1,752	1,173	505	631	1,316
Net income (loss)	\$ (599)	\$ 306	\$ 1,328	\$ 3,120	\$ 1,564	\$ 118	\$ 477	\$ 2,502
Net income (loss) per share—basic:	\$ (0.05)	\$ 0.03	\$ 0.11	\$ 0.26	\$ 0.13	\$ 0.01	\$ 0.04	\$ 0.20
Net income (loss) per share—diluted	\$ (0.05)	\$ 0.03	\$ 0.11	\$ 0.26	\$ 0.13	\$ 0.01	\$ 0.04	\$ 0.20

Note 14: Subsequent Events

On January 13, 2020, Travelzoo (the "Company") entered into a Stock Purchase Agreement (the "SPA") with JFC Travel Group Co. ("JFC"), which owns and operates Jack's Flight Club, and the sellers identified on the signature pages thereto (the "Sellers"), for the purchase of up to 100% of the outstanding capital stock of JFC (the "Shares"). Pursuant to the SPA, on January 13, 2020, the Sellers sold 60% of the Shares to the Company for an aggregate purchase price of \$12,000,000, payable in cash and promissory notes. The promissory notes contain an interest rate of 1.6% per annum and a due date of January 31, 2020, with a one-time right to extend the maturity date up to April 30, 2020, which the Company elected to do. The remaining 40% of the Shares are subject to a call/put option exercisable by the Company or the Sellers, as applicable, on or around January 1, 2021, subject to the terms and conditions set forth in the SPA.

The acquisition will be accounted for using the purchase method of accounting in accordance with the business acquisition guidance. Under the purchase accounting method, the total estimated purchase consideration of the acquisition will be allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their relative fair values. The excess of the purchase consideration over the net tangible and identifiable intangible assets acquired and liabilities will be recorded as goodwill. As of the date of the filing of this Form 10-K, the purchase price allocation has not been prepared as there has not been enough time to complete the related activities.

On February 28, 2020, Travelzoo entered into an agreement with Adobe Inc. whereby Adobe will provide certain on-demand, managed and professional services for a total consideration of approximately \$1.6 million annually for three years, with the first year payable in October 2020 (the "Adobe Agreement"). Travelzoo has a one-time right to terminate the Adobe Agreement at the end of year one, pursuant to the terms and conditions set forth in the Adobe Agreement.

On March 3, 2020 (the "New Premises Commencement Date"), Travelzoo moved its New York headquarters from the 37th floor to the 35th floor of the same building, pursuant to that certain Second Amendment to Lease, dated as of August 8, 2019, by and between 590 Madison Avenue, LLC and the Company (the "New York Lease"). Pursuant to the New York Lease, upon the New Premises Commencement Date, the annual fixed rent as provided for in the original lease agreement will continue for 10 years until March 2030, with no increases. Additionally, the landlord performed the construction, renovation and relocation work and paid Travelzoo \$5.0 million as an incentive, of which \$2.5 million was received in November 2019 and \$2.5 million was received in March 2020. The Company accounted for the lease incentives as a reduction to the right-of-use asset. The additional lease payments under the New York Lease are approximately \$7.4 million.

On March 10, 2020, the Company approved its plan to exit its business in Asia Pacific. The Asia Pacific operating segment has incurred losses for several years. Management is evaluating its options to exit the business which could include a sale or disposal of the business or related assets. The Company is also in the process of evaluating the impact on its financial statements for any restructuring or disposal costs that might be incurred as a result of this action but an estimate of such costs cannot be made at this time.

As a result of the 2019 Novel Coronavirus outbreak in the first quarter of 2020, the Company expects that its financial results may be negatively impacted in the first quarter of 2020 and beyond, but the extent and duration of such impact in the long-term is uncertain as it is dependent on future developments that can not be reasonably estimated at this time, including but not limited to the severity and transmission rate of the virus, the extent and effectiveness of containment actions taken, including mobility restrictions, and the impact of these and other factors on travel behavior. A significant adverse change in the business climate could affect the value of the Company's long-lived assets, including its equity method investment in WeekenGO.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on management's evaluation (with the participation of the Company's Chief Executive Officer (CEO) and Chief Accounting Officer (CAO)), as of December 31, 2019, our CEO and CAO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in U.S. Securities and Exchange Commission (SEC) rules and forms, and that such information is accumulated and communicated to management, including our CEO and CAO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2019, there were no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019, the end of our fiscal year. Management based its assessment on criteria established in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2019 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with generally accepted accounting principles.

Our independent registered public accounting firm, RSM US LLP, audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, as stated in the firm's audit report, which is included within Part II, Item 8 of this Form 10-K.

/s/ HOLGER BARTEL
Holger Bartel
Global Chief Executive Officer

/s/ LISA SU
Lisa Su
Chief Accounting Officer

March 20, 2020

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item is incorporated by reference to Travelzoo's Definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of Travelzoo's fiscal year ended December 31, 2019 and is incorporated herein by reference.

Item 11. Executive Compensation

Information regarding executive compensation and compensation committee interlocks is incorporated by reference to the information in the definitive Proxy Statement relating to our 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2019, which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management and related stockholder matters is incorporated by reference to the information in the definitive Proxy Statement relating to our 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2019, which is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions, and director independence is incorporated by reference to the information set forth in the definitive Proxy Statement relating to our 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2019, which is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information regarding principal accountant fees and services is set forth in the definitive Proxy Statement relating to our 2020 Annual Meeting of Stockholders, which is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this report:

(1) *Our Consolidated Financial Statements are included in Part II, Item 8:*

	Page
Reports of RSM US LLP - Independent Registered Public Accounting Firm	<u>50</u>
Report of PricewaterhouseCoopers LLP - Independent Registered Public Accounting Firm	<u>52</u>
Consolidated Balance Sheets	<u>53</u>
Consolidated Statements of Operations	<u>54</u>
Consolidated Statements of Comprehensive Income	<u>55</u>
Consolidated Statements of Stockholders' Equity	<u>56</u>
Consolidated Statements of Cash Flows	<u>57</u>
Notes to Consolidated Financial Statements	<u>58</u>

(2) *Supplementary Consolidated Financial Statement Schedules:*

All schedules are omitted because of the absence of conditions under which they are required or because the required information is included in the consolidated financial statements or notes thereto.

(3) *Exhibits:*

See attached Exhibit Index

SIGNATURES

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

TRAVELZOO

By: /s/ LISA SU

Lisa Su

Chief Accounting Officer

Date: March 20, 2020

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Lisa Su as his or her attorney-in-fact, with full power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Form 10-K, with all exhibits and any and all documents required to be filed with respect thereto, with the Securities and Exchange Commission or any regulatory authority, granting unto such attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in order to effectuate the same as fully to all intents and purposes as he or she might or could do if personally present, hereby ratifying and confirming all that such attorney-in-fact and agent or his substitute or substitutes, may lawfully do or cause to be done.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title(s)</u>	<u>Date</u>
<u>/s/ RALPH BARTEL</u> Ralph Bartel	Chairman of the Board of Directors	March 20, 2020
<u>/s/ HOLGER BARTEL</u> Holger Bartel	Global Chief Executive Officer	March 20, 2020
<u>/s/ LISA SU</u> Lisa Su	Chief Accounting Officer	March 20, 2020
<u>/s/ CHRISTINA SINDONI CIOCCA</u> Christina Sindoni Ciocca	Director	March 20, 2020
<u>/s/ CARRIE LIQUN LIU</u> Carrie Liqun Liu	Director	March 20, 2020
<u>/s/ MARY REILLY</u> Mary Reilly	Director	March 20, 2020
<u>/s/ BEATRICE TARKA</u> Beatrice Tarka	Director	March 20, 2020

EXHIBIT INDEX

Exhibit Number		Description
<u>3.1</u>	—	Certificate of Incorporation of Travelzoo (Incorporated by reference to our Pre-Effective Amendment No. 6 to our Registration Statement on Form S-4 (File No. 333-55026), filed February 14, 2002).
<u>3.2</u>	—	Certificate of Amendment of Certificate Incorporation of Travelzoo (File No. 000-50171), filed May 10, 2017)
<u>3.3</u>	—	Certificate of Amendment of Certificate of Incorporation of Travelzoo (Incorporated by reference to our Schedule 14A (File No. 000-50171), filed April 1, 2019)
<u>3.4</u>	—	By-laws of Travelzoo (Incorporated by reference to our Pre-Effective Amendment No. 6 to our Registration Statement on Form S-4 (File No. 333-55026), filed February 14, 2002).
<u>10.1</u>	—	Form of Director and Officer Indemnification Agreement (Incorporated by reference to Exhibit 10.1 on Form 10-Q (File No. 000-50171), filed November 9, 2007)
<u>10.2</u>	—	Agreement of Lease, effective as of February 1, 2008, between Travelzoo and 590 Madison Avenue, LLC (Incorporated by reference to Exhibit 10.1 on Form 8-K (File No. 000-50171), filed February 7, 2008)
<u>10.3</u>	—	Asset Purchase Agreement, dated September 30, 2009, among Travelzoo, Travelzoo K.K., Azzurro Capital Inc. and a buyer entity to be designated by Azzurro Capital Inc., with Exhibits (Incorporated by reference to Exhibit 10.1 on Form 8-K (File No. 000-50171), filed October 5, 2009)
<u>10.4</u>	—	Asset Purchase Agreement, dated September 30, 2009, among Travelzoo, Travelzoo (Asia Pacific) Limited, Azzurro Capital Inc. and a buyer entity to be designated by Azzurro Capital Inc., with Exhibits (Incorporated by reference to Exhibit 10.2 on Form 8-K (File No. 000-50171), filed October 5, 2009)
<u>10.5</u>	—	Option Agreement, dated September 30, 2009, between Travelzoo and Azzurro Capital Inc. (Incorporated by reference to Exhibit 10.3 on Form 8-K (File No. 000-50171), filed October 5, 2009)
<u>10.6*</u>	—	Employment Agreement, dated September 28, 2015, between Travelzoo and Holger Bartel (Incorporated by reference to Exhibit 10.23 on Form 8-K (File No. 000-50171), filed October 1, 2015)
<u>10.7*</u>	—	Nonqualified Stock Option Agreement, dated September 28, 2015, between Travelzoo and Holger Bartel (Incorporated by reference to Exhibit 10.24 on Form 8-K (File No. 000-50171), filed October 1, 2015)
<u>10.8</u>	—	Security Purchase Agreement,

dated August
20, 2015,
among
Travelzoo
(Europe)
Limited, and
Travelzoo
(Asia
Pacific) with
Exhibits
(Incorporated
by reference
to Exhibit
10.1 on Form
8-K (File No.
000-50171),
filed August
26, 2015)

<u>10.9*</u>	—	Nonqualified Stock Option Agreement, dated October 30, 2017, between Travelzoo and Holger Bartel dated October 30, 2017. (Incorporated by reference to Exhibit 10.3 on Form 8-K (File No. 000-50171), filed November 2, 2017)
<u>10.12</u>	—	Employment Agreement, dated June 28, 2018 between Michael Peterson and Travelzoo (Incorporated by reference to Exhibit 10.22 on Form 8-K (File No. 000-50171), filed June 28, 2018)
<u>10.13*</u>	—	Nonqualified Stock Option Agreement, dated June 22, 2018, between Travelzoo and Michael Peterson (Incorporated by reference to Exhibit 10.23 on Form 8-K (File No. 000-50171), filed June 28, 2018)
<u>10.15</u>	—	Stock Repurchase Agreement, dated February 13, 2019, between Travelzoo and Azzurro Capital Inc. on Form 8-K (File No. 000-50171), filed February 13, 2019)
<u>10.16‡</u>	—	Second Amendment to Lease, dated August 8, 2019, between 590 Madison Avenue, LLC and Travelzoo.
<u>10.17*‡</u>	—	Nonqualified Stock Option Agreement, dated September 5, 2019, between Travelzoo and Holger Bartel (Incorporated by reference to Exhibit 10.3 on Form 8-K (File No. 000-50171), filed September 10, 2019)
<u>10.18‡</u>	—	Stock Repurchase Agreement, dated November 6, 2019, between Travelzoo and Holger Bartel (Incorporated by reference to Exhibit 10.4 on Form 8-K (File No. 000-50171), filed November 12, 2019.
<u>10.19‡</u>	—	Stock Purchase Agreement, dated January 13, 2020, among Travelzoo, JFC Travel Group Co., Mikhail Mayzenberg and Philip Wintermantle.
<u>21.1‡</u>	—	Subsidiaries of Travelzoo
<u>23.1‡</u>	—	Consent of RSM US LLP, Independent Registered Public Accounting Firm
<u>23.2‡</u>	—	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
<u>24.1‡</u>	—	Power of Attorney (included on signature page)
<u>31.1‡</u>	—	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<u>31.2‡</u>	—	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<u>32.1†</u>	—	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
<u>32.2†</u>	—	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS†	—	XBRL Instance Document
101.SCH†	—	XBRL Taxonomy Extension Schema Document
101.CAL†	—	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF†	—	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†	—	XBRL Taxonomy Extension Label Linkbase Document
101.PRE†	—	XBRL Taxonomy Extension Presentation Linkbase Document

* This exhibit is a management contract or a compensatory plan or arrangement.

‡ Filed herewith

† Furnished herewith