

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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 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, 37th Floor New York, New York	10022
(Address of principal executive offices)	(Zip code)
Registrant's telephone number, including area code: (212) 484-4900	

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revisited financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of Travelzoo common stock outstanding as of April 25, 2019 was 11,865,402 shares.

TRAVELZOO
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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,946	\$ 18,017
Accounts receivable, less allowance for doubtful accounts of \$792 and \$692 as of March 31, 2019 and December 31, 2018, respectively	15,579	12,646
Income tax receivable	—	389
Deposits	88	167
Prepaid expenses and other	1,607	1,947
Total current assets	37,220	33,166
Deposits and other	689	685
Deferred tax assets	1,284	1,645
Restricted cash	1,325	1,444
Investment in WeekenGO	2,483	2,694
Operating lease right-of-use assets	14,264	—
Property and equipment, net	3,604	3,790
Total assets	\$ 60,869	\$ 43,424
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 16,180	\$ 17,129
Accrued expenses and other	9,067	7,853
Deferred revenue	1,199	1,339
Operating lease liabilities	5,508	—
Income tax payable	1,519	489
Total current liabilities	33,473	26,810
Long-term tax liabilities	425	418
Long-term operating lease liabilities	11,251	—
Long-term deferred rent and other	83	2,137
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value (40,000 shares authorized; 11,865 and 11,962 shares issued and outstanding as of March 31, 2019 and December 31, 2018)	119	120
Additional paid in capital	—	—
Retained earnings	19,821	18,153
Accumulated other comprehensive loss	(4,303)	(4,214)
Total stockholders' equity	15,637	14,059
Total liabilities and stockholders' equity	\$ 60,869	\$ 43,424

See accompanying notes to unaudited condensed consolidated financial statements.

TRAVELZOO
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	2019	2018
Revenues	\$ 30,825	\$ 30,884
Cost of revenues	2,946	3,385
Gross profit	27,879	27,499
Operating expenses:		
Sales and marketing	15,606	15,542
Product development	1,703	2,511
General and administrative	5,599	5,789
Total operating expenses	22,908	23,842
Income from operations	4,971	3,657
Other income (expense), net	(99)	161
Income before income taxes	4,872	3,818
Income tax expense	1,752	1,316
Net income	\$ 3,120	\$ 2,502
Net income per share—basic		
	\$ 0.26	\$ 0.20
Net income per share—diluted		
	\$ 0.26	\$ 0.20
Shares used in computing basic net income per share		
	11,914	12,462
Shares used in computing diluted net income per share		
	12,224	12,462

See accompanying notes to unaudited condensed consolidated financial statements.

TRAVELZOO
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended	
	March 31,	
	2019	2018
Net income	\$ 3,120	\$ 2,502
Other comprehensive loss:		
Foreign currency translation adjustment	(89)	(183)
Total comprehensive income	<u>\$ 3,031</u>	<u>\$ 2,319</u>

See accompanying notes to unaudited condensed consolidated financial statements.

TRAVELZOO
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three Months Ended	
	March 31,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 3,120	\$ 2,502
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	330	384
Stock-based compensation	163	173
Deferred income tax	341	(110)
Loss on equity investment in WeekenGO	159	—
Net foreign currency effect	(21)	(171)
Other	77	(83)
Changes in operating assets and liabilities:		
Accounts receivable	(2,980)	(997)
Income tax receivable	389	428
Prepaid expenses and other	425	(10)
Accounts payable	(1,101)	(3,185)
Accrued expenses and other	1,587	1,024
Income tax payable	988	217
Other liabilities	(71)	7
Net cash provided by operating activities	<u>3,406</u>	<u>179</u>
Cash flows from investing activities:		
Purchases of property and equipment	(131)	(65)
Net cash used in investing activities	<u>(131)</u>	<u>(65)</u>
Cash flows from financing activities:		
Repurchase of common stock	(1,591)	—
Exercise of stock options and taxes paid for net share settlement of equity awards	(26)	—
Net cash used in financing activities	<u>(1,617)</u>	<u>—</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	152	456
Net increase in cash, cash equivalents and restricted cash	<u>1,810</u>	<u>570</u>
Cash, cash equivalents and restricted cash at beginning of period	19,461	24,001
Cash, cash equivalents and restricted cash at end of period	<u>\$ 21,271</u>	<u>\$ 24,571</u>
Supplemental disclosure of cash flow information:		
Cash paid (refunded) for income taxes, net	\$ (60)	\$ 779
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 1,805	\$ —
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows	\$ 1,277	\$ —

See accompanying notes to unaudited condensed consolidated financial statements.

TRAVELZOO
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balances, January 1, 2019	11,962	\$ 120	\$ —	\$ 18,153	\$ (4,214)	\$ 14,059
Stock-based compensation expense	—	—	163	—	—	163
Repurchase and retirement of common stock	(100)	(1)	(138)	(1,451)	—	(1,590)
Taxes paid for net share settlement of equity awards	3	—	(26)	—	—	(26)
Foreign currency translation adjustment	—	—	—	—	(89)	(89)
Net income	—	—	—	3,120	—	3,120
Balances, March 31, 2019	11,865	\$ 119	\$ (1)	\$ 19,822	\$ (4,303)	\$ 15,637

	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	—	—	173	—	—	173
Foreign currency translation adjustment	—	—	—	—	(183)	(183)
Net income	—	—	—	2,502	—	2,502
Cumulative effect adjustment from the adoption of ASC 606	—	—	—	1,314	—	1,314
Balances, March 31, 2018	12,462	\$ 125	\$ 173	\$ 20,366	\$ (3,780)	\$ 16,884

See accompanying notes to unaudited condensed consolidated financial statements.

TRAVELZOO
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Summary of Significant Accounting Policies

(a) The Company and Basis of Presentation

Travelzoo® provides our members insider deals and one-of-a-kind experiences personally reviewed by one of our deal experts around the globe. With more than 25 offices worldwide, we have our finger on the pulse of outstanding travel, entertainment, and lifestyle experiences. For over 15 years we have worked in partnership with 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* e-mail newsletter, the *Newsflash* e-mail alert service, and the *Travelzoo Network*, a network of third-party websites that list travel deals published by Travelzoo. Our *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 March 31, 2019, Azzurro is the Company's largest stockholder, holding approximately 50.1% of the Company's outstanding shares.

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to state fairly the financial position of the Company and its results of operations and cash flows. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and related notes as of and for the year ended December 31, 2018, included in the Company's Form 10-K filed with the SEC on March 11, 2019.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Investments in entities where the Company does not have control, but does have significant influence, are accounted for as equity method investments.

In April 2018, Travelzoo entered into an agreement with WeekenGO, a start-up company in Germany. WeekenGO uses new technology to promote vacation packages. Travelzoo invested \$3.0 million in WeekenGO for a 25% ownership interest. 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 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. During the three months ended March 31, 2019, the Company recorded \$210,000 for its share of WeekenGO losses, amortization of basis differences and currency translation adjustment. This equity method investment is reported as a long-term investment on the Company's condensed consolidated balance sheets. In April 2019, the Company invested an additional \$673,000 in WeekenGO and increased the Company's ownership interest to 26.6%.

WeekenGO signed a \$2.1 million insertion order for advertising with Travelzoo in April 2018. The Company's advertising services provided to WeekenGO in the three months ended March 31, 2019 were \$555,000.

The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019 or any other future period, and the Company makes no representations related thereto.

(b) Recent Accounting Pronouncements Not Yet Adopted

In August 2018, the Financial Accounting Standards Board ("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. For all other calendar-year entities, it is effective for annual periods beginning in 2021 and interim periods in 2022. Early adoption is permitted. The Company is currently in the process of evaluating the impact of the adoption on its financial position, results of operations and cash flows.

(c) 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, 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 includes reclassifying existing deferred rent liability of \$2.6 million to operating lease right-of-use assets.

(d) Significant Accounting Policies

Below are the significant accounting policies as a result of the recently adopted accounting pronouncements. For a comprehensive description of our accounting policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2018.

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 unaudited condensed 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 unaudited condensed consolidated balance sheets. 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 condensed consolidated statements of income.

Cash, Cash Equivalents and Restricted Cash

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 unaudited condensed consolidated balance sheets to the total amounts shown in the unaudited condensed consolidated statements of cash flows:

	March 31,	December 31,
	2019	2018
Cash and cash equivalents	\$ 19,946	\$ 18,017
Restricted cash	1,325	1,444
Total cash, cash equivalents and restricted cash in the condensed consolidated statements of cash flows	<u>\$ 21,271</u>	<u>\$ 19,461</u>

The Company's restricted cash was included in noncurrent assets as of March 31, 2019 and December 31, 2018.

Revenue Recognition

The Company recognizes revenues when control of the promised goods or services is transferred to its customers, in an amount that reflects the consideration the Company expects 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 Getaway e-mail alert services and providing hotel bookings. The Company's disaggregated revenues are included in "Note 8: 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 advertisements, 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, Getaway and hotel platform, 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 Getaway 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 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.

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 \$930,000 was recognized as revenue during the quarter ended March 31, 2019.

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):

	Three Months Ended	
	March 31,	
	2019	2018
Numerator:		
Net income	\$ 3,120	\$ 2,502
Denominator:		
Weighted average common shares—basic	11,914	12,462
Effect of dilutive securities: stock options	310	—
Weighted average common shares—diluted	12,224	12,462
Net income per share—basic	\$ 0.26	\$ 0.20
Net income per share—diluted	\$ 0.26	\$ 0.20

For the three months ended March 31, 2019 and March 31, 2018, options to purchase 150,000 and 950,000 shares of common stock were not included in the computation of diluted net income per share because the effect would have been anti-dilutive.

Note 3: Commitments and Contingencies

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.

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 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 payments for the three months ended March 31, 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 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.

The Company has operating leases. Refer to Note 9 for contractual commitments as of March 31, 2019.

Local Deals and *Getaway* merchant payables included in accounts payable were \$11.2 million and \$11.8 million, as of March 31, 2019 and December 31, 2018, respectively.

Note 4: Income Taxes

In determining the quarterly provisions for income taxes, the Company uses an estimated annual effective tax rate, which is generally based on our expected annual income and statutory tax rates in the U.S., Canada, Japan, Hong Kong, and the U.K. For the three months ended March 31, 2019 and 2018, the Company's effective tax rate was 36% and 34%, respectively. The Company's effective tax rate increased for the three months ended March 31, 2019 from the corresponding three months ended March 31, 2018, due primarily to the geographic mix of income from continuing operations, including a relative increase in foreign losses not benefited.

The Tax Act created a new requirement that certain income such as Global Intangible Low-Taxed Income ("GILTI") earned by a controlled foreign corporation ("CFC") must be included in the gross income of the CFC U.S. shareholder. During the three months ended March 31, 2019, the Company provided for the impact in the calculation of the annual effective tax rate. The FASB Staff Q&A, Topic 740 No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI resulting from those items in the year the tax is incurred. We have elected to recognize the resulting tax on GILTI as a period expense in the period the tax is incurred.

As of March 31, 2019, the Company is permanently reinvested in certain of its 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 \$440,000.

The Company maintains liabilities for uncertain tax positions. At March 31, 2019, the Company had approximately \$213,000 in total unrecognized tax benefits, which if recognized, would favorably affect the Company's effective income tax rate.

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 March 31, 2019 and December 31, 2018, the Company had approximately \$218,000 and \$212,000 in accrued interest, respectively.

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 2013 and is subject to California tax examinations for years after 2007. 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 2011.

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. 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.

Note 5: Accumulated Other Comprehensive Loss

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

	Three Months Ended	
	March 31,	
	2019	2018
Beginning balance	\$ (4,214)	\$ (3,597)
Other comprehensive loss due to foreign currency translation, net of tax	(89)	(183)
Ending balance	\$ (4,303)	\$ (3,780)

There were no amounts reclassified from accumulated other comprehensive loss for the three months ended March 31, 2019 and 2018.

Note 6: 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 condensed consolidated statements of operations.

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 became exercisable annually starting 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 the three months ended March 31, 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. Stock-based compensation related to these options was fully expensed. As of March 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 the three months ended March 31, 2019, the remaining 50,000 options were net exercised for 3,000 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 2027. As of March 31, 2019, 400,000 options were outstanding and 250,000 of these options were vested. Total stock-based compensation for the three months ended March 31, 2019, related to these option grants was \$143,000. As of March 31, 2019, there was approximately \$430,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 0.8 years.

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 the three months ended March 31, 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 March 31, 2019, 50,000 options were outstanding and none of these options was vested. Total stock-based compensation for the three months ended March 31, 2019, related to these option grants was \$22,000. As of March 31, 2019, there was approximately \$280,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 3.1 years.

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 March 31, 2019, 50,000 options were outstanding and none of these options was vested. Total stock-based compensation for the three months ended March 31, 2019, related to these option grants was \$25,000. As of March 31, 2019, there was approximately \$327,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 3.2 years.

Note 7: 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 February 2019, the Company entered into a Stock Repurchase Agreement with Azzuro, a majority 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.

Note 8: 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, Taiwan, 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 profit (loss) for making financial decisions and allocating resources. Management believes that segment revenues and operating profit (loss) are appropriate measures of evaluating the operational performance of the Company's segments.

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

Three Months Ended March 31, 2019	Asia Pacific	Europe	North America	Consolidated
Revenues from unaffiliated customers	\$ 1,635	\$ 11,054	\$ 18,136	\$ 30,825
Intersegment revenues (expenses)	30	(481)	451	—
Total net revenues	1,665	10,573	18,587	30,825
Operating profit (loss)	\$ (1,635)	\$ 2,137	\$ 4,469	\$ 4,971

Three Months Ended March 31, 2018	Asia Pacific	Europe	North America	Consolidated
Revenues from unaffiliated customers	\$ 2,042	\$ 10,332	\$ 18,510	\$ 30,884
Intersegment revenues (expenses)	(20)	(52)	72	—
Total net revenues	2,022	10,280	18,582	30,884
Operating profit (loss)	\$ (1,740)	\$ 1,966	\$ 3,431	\$ 3,657

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. Revenues from unaffiliated customers excludes intersegment revenues and represents revenue with parties unaffiliated with Travelzoo and its wholly owned subsidiaries.

For the three months ended March 31, 2019 and 2018, the Company did not have any customers that accounted for 10% or more of revenue. As of March 31, 2019 and December 31, 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 (in thousands) 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).

	Three Months Ended	
	March 31,	
	2019	2018
Asia Pacific		
Travel	\$ 1,600	\$ 1,901
Local	65	121
Total Asia Pacific revenues	\$ 1,665	\$ 2,022
Europe		
Travel	\$ 9,512	\$ 9,053
Local	1,061	1,227
Total Europe revenues	\$ 10,573	\$ 10,280
North America		
Travel	\$ 16,317	\$ 16,036
Local	2,270	2,546
Total North America revenues	\$ 18,587	\$ 18,582
Consolidated		
Travel	\$ 27,429	\$ 26,990
Local	3,396	3,894
Total revenues	\$ 30,825	\$ 30,884

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 countries that exceed 10% of total revenue (in thousands):

	Three Months Ended	
	March 31,	
	2019	2018
Revenue		
United States	\$ 16,895	\$ 17,118
United Kingdom	5,859	5,860
Germany	3,641	3,659
Rest of the world	4,430	4,247
Total revenues	\$ 30,825	\$ 30,884

The following table sets forth property and equipment by geographic area (in thousands):

	March 31,	December 31,
	2019	2018
United States	\$ 2,875	\$ 3,035
Rest of the world	729	755
Total long lived assets	\$ 3,604	\$ 3,790

Note 9: 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, Taiwan, 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 three months ended March 31, 2019 ((in thousands):

	March 31, 2019
Operating lease cost	\$ 1,184
Short-term lease cost	415
Variable lease cost	300
Sublease income	(84)
Total lease cost	\$ 1,815

For the three months ended March 31, 2019, cash payments against the operating lease liabilities totaled \$1.3 million. ROU assets obtained in exchange for lease obligations was \$1.8 million for three months ended March 31, 2019.

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

	March 31, 2019
Assets:	
Operating lease right-of-use assets	\$ 14,264
Liabilities:	
Operating lease liabilities	\$ 5,508
Long-term operating lease liabilities	11,251
Total operating lease liabilities	\$ 16,759
Weighted average remaining lease term (years)	3.95
Weighted average discount rate	5.1%

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

Years ending December 31,		
2019 (excluding the three months ended March 31, 2019)	\$	4,257
	2020	5,111
	2021	3,666
	2022	2,365
	2023	2,044
Thereafter		1,157
Total lease payments		18,600
Less interest		(1,841)
Present value of operating lease liabilities	\$	16,759

Item 2. 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 28 million members insider deals and one-of-a-kind experiences personally reviewed by one of our deal experts around the globe. With more than 25 offices worldwide, we have our finger on the pulse of outstanding travel, entertainment, and lifestyle experiences. For over 15 years we have worked in partnership with more than 2,000 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 e-mail newsletter, and the Newsflash e-mail alert service. We operate the Travelzoo Network, a network of third-party websites that list deals published by Travelzoo. Our 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 2,000 companies use our services, including Air France, Air New Zealand, British Airways, Cathay Pacific Airways, Ctrip, Emirates, Etihad, Expedia, Fairmont Hotels and Resorts, Hawaiian Airlines, Hilton Hotels & Resorts, InterContinental Hotels Group, JPB Corporation, Lion World Travel, Lufthansa, Nexus Holidays, Princess Cruises, Royal Caribbean, Singapore Airlines, Starwood Hotels & Resorts Worldwide, Tourism Australia, Tourism Ireland, and United Airlines.

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.

In April 2018, the Company entered into an agreement with WeekenGO, a start-up company in Germany. WeekenGO uses new technology to promote vacation packages. Travelzoo invested \$3.0 million in WeekenGO for a 25% ownership interest. In April 2019, the Company invested an additional \$673,000 in WeekenGO and increased the Company's ownership interest to 26.6%.

WeekenGO signed a \$2.1 million insertion order for advertising with Travelzoo in April 2018. See "Note 1: Summary of Significant Accounting Policies" to the accompanying unaudited condensed consolidated financial statements for further information.

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 *Getaway* 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*, Travelzoo website, Newsflash, Travelzoo Network as well as *Getaway* 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 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 *Getaway*). 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 *Getaway*, 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 to 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 *Getaway* increases or the total number of vouchers sold increases because we have credit card fees based upon face value of vouchers sold, due to customer service costs related to vouchers sold and due to refunds to members on vouchers sold. Our cost of revenues are 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 may 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 an 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, which 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. Our general and administrative expenses as a percentage of revenue may also fluctuate depending on the number of requests received related to a program under which the Company intends to make cash payments to people who establish that they were former stockholders of Travelzoo.com Corporation, whose claims were not escheated to states and who failed to submit requests to convert shares into Travelzoo within the required time period. 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.

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, *Getaway* 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 start-up company in Germany. WeekenGO uses new technology to promote vacation packages. Travelzoo invested \$3.0 million in WeekenGO for a 25% ownership interest. In April 2019, the Company invested an additional \$673,000 in WeekenGO and increased the Company's ownership interest to 26.6%.

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.

	Three Months Ended	
	March 31,	
	2019	2018
Revenues	100.0%	100.0%
Cost of revenues	9.6	11.0
Gross profit	90.4	89.0
Operating expenses:		
Sales and marketing	50.6	50.3
Product development	5.5	8.1
General and administrative	18.2	18.8
Total operating expenses	74.3	77.2
Income from operations	16.1	11.8
Other income (loss), net	(0.3)	0.6
Income before income taxes	15.8	12.4
Income tax expense	5.7	4.3
Net income	10.1%	8.1%

Operating Metrics

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

	Three Months Ended	
	March 31,	
	2019	2018
Asia Pacific		
Total members (1)	3,620,000	3,637,000
Average cost per acquisition of a new member	\$ 3.24	\$ 4.00
Revenue per member (2)	\$ 1.84	\$ 2.23
Revenue per employee (3)	\$ 82,000	\$ 95,000
Mobile application downloads	788,000	739,000
Social media followers	602,000	577,000
Europe		
Total members (1)	8,899,000	8,698,000
Average cost per acquisition of a new member	\$ 4.23	\$ 3.46
Revenue per member (2)	\$ 4.83	\$ 4.82
Revenue per employee (3)	\$ 282,000	\$ 282,000
Mobile application downloads	1,915,000	1,770,000
Social media followers	868,000	850,000
North America		
Total members (1)	17,497,000	17,512,000
Average cost per acquisition of a new member	\$ 2.81	\$ 2.01
Revenue per member (2)	\$ 4.26	\$ 4.28
Revenue per employee (3)	\$ 381,000	\$ 379,000
Mobile application downloads	3,504,000	3,064,000
Social media followers	3,158,000	3,039,000
Consolidated		
Total members (1)	29,891,000	29,714,000
Average cost per acquisition of a new member	\$ 3.47	\$ 2.72
Revenue per member (2)	\$ 4.15	\$ 4.20
Revenue per employee (3)	\$ 290,000	\$ 290,000
Mobile application downloads	6,207,000	5,573,000
Social media followers	4,629,000	4,466,000

- (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) Annualized revenue divided by number of members at the beginning of the year.
- (3) Annualized revenue divided by number of employees at the end of the quarter.

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*), *Getaway* vouchers and hotel platform. Local revenue includes *Local Deals* vouchers and entertainment offers (vouchers and direct bookings).

	Three Months Ended	
	March 31,	
	2019	2018
Asia Pacific		
Travel	\$ 1,600	\$ 1,901
Local	65	121
Total Asia Pacific revenues	\$ 1,665	\$ 2,022
Europe		
Travel	\$ 9,512	\$ 9,053
Local	1,061	1,227
Total Europe revenues	\$ 10,573	\$ 10,280
North America		
Travel	\$ 16,317	\$ 16,036
Local	2,270	2,546
Total North America revenues	\$ 18,587	\$ 18,582
Consolidated		
Travel	\$ 27,429	\$ 26,990
Local	3,396	3,894
Total revenues	\$ 30,825	\$ 30,884

Asia Pacific

Asia Pacific revenues decreased \$357,000 for the three months ended March 31, 2019 from the three months ended March 31, 2018. The decrease was primarily due to a \$226,000 decrease in Travel revenue, a \$53,000 decrease in Local revenues and a \$78,000 negative impact from foreign currency movements relative to the U.S. dollar. The decrease in Travel revenue of \$226,000 was primarily due to the decreased number of e-mails sent. The decrease in Local revenues of \$53,000 was primarily due to the decreased number of *Local Deals* vouchers sold.

Europe

Europe revenues increased \$293,000 for the three months ended March 31, 2019 from the three months ended March 31, 2018. The increase was primarily due to a \$1.2 million increase in Travel revenues, offset partially by a \$91,000 decrease in Local revenues and a \$779,000 negative impact from foreign currency movements relative to the U.S. dollar. The increase in Travel revenue of \$1.2 million was primarily due to the increased booking of vacation packages which the Company launched late last year. The decrease in Local revenues of \$91,000 was primarily due to the decreased number of *Local Deals* vouchers sold.

North America

North America revenues increased \$5,000 for the three months ended March 31, 2019 from the three months ended March 31, 2018. This increase was primarily due to a \$281,000 increase in Travel revenues, offset partially by a \$276,000 decrease in Local revenues. The increase in Travel revenue of \$281,000 was primarily due to the increased number of *Getaways* voucher sold. The decrease in Local revenues of \$276,000 was primarily due to the decreased number of *Local Deals* vouchers sold.

For the three months ended March 31, 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 \$2.9 million and \$3.4 million for the three months ended March 31, 2019 and March 31, 2018, respectively.

Cost of revenue decreased \$439,000 for the three months ended March 31, 2019 from the three months ended March 31, 2018 primarily due to a \$260,000 decrease in customer service costs and a \$224,000 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 expenses associated with sales, marketing and production staff, expenses related to our participation in industry conferences, public relations expenses and facilities costs. Sales and marketing expenses were \$15.6 million and \$15.5 million for the three months ended March 31, 2019 and 2018, respectively. Advertising expenses consist primarily of online advertising referred to as traffic acquisition cost and member acquisition costs. For the three months ended March 31, 2019 and 2018, advertising expenses accounted for 19% and 11% of the total sales and marketing expenses, respectively. The goal of our advertising was to acquire new members to our e-mail products, increase the traffic to our websites, increase brand awareness and increase our audience through mobile and social media channels.

Sales and marketing expenses increased \$64,000 for the three months ended March 31, 2019 from the three months ended March 31, 2018 primarily due to increase in member acquisition costs.

Product Development

Product development expenses consist primarily of compensation for software development staff, fees for professional services, software maintenance and amortization, and facilities costs. Product development expenses were \$1.7 million and \$2.5 million for the three months ended March 31, 2019 and 2018, respectively.

Product development expenses decreased \$808,000 for three months ended March 31, 2019 from the three months ended March 31, 2018 primarily due to a \$521,000 decrease in salary and employee related expenses as the result of a decrease in headcount and a \$198,000 decrease in professional service expenses.

General and Administrative

General and administrative expenses consist primarily of compensation for administrative and executive staff, bad debt expense, amortization of intangible assets, general office expense and facilities costs. General and administrative expenses were \$5.6 million and \$5.8 million for the three months ended March 31, 2019 and 2018, respectively.

General and administrative expenses decreased \$190,000 for the three months ended March 31, 2019 from the three months ended March 31, 2018 primarily due to a decrease in professional services expense.

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 \$1.8 million and \$1.3 million for the three months ended March 31, 2019 and 2018, respectively. Our effective tax rate was 36% and 34% for the three months ended March 31, 2019 and 2018, respectively.

Our effective tax rate increased for the three months ended March 31, 2019 from the three months ended March 31, 2018 due primarily to the change of geographic mix of our worldwide taxable income including a relative increase in foreign net operating losses from Asia Pacific that are not benefited. We expect our effective tax rate to fluctuate in future periods depending on the geographic mix of our worldwide income or losses incurred by our operations in Asia Pacific, Canada and Europe, statutory tax rate changes that may occur, existing or new uncertain tax matters that may arise and require changes in tax reserves, the use of accumulated losses to offset current taxable income in Asia Pacific and the need for valuation

allowances on certain tax assets, if any. See "Note 4: Income Taxes" to the accompanying unaudited condensed consolidated financial statements for further information.

Segment Information

Asia Pacific

	Three Months Ended March 31,	
	2019	2018
	(In thousands)	
Revenue	\$ 1,665	\$ 2,022
Operating loss	\$ (1,635)	\$ (1,740)
Operating loss as a % of revenue	(98.2)%	(86.1)%

Asia Pacific revenues decreased \$357,000 for the three months ended March 31, 2019 from the three months ended March 31, 2018 (see "Revenues" above). Asia Pacific expenses decreased \$461,000 for the three months ended March 31, 2019 from the three months ended March 31, 2018. This decrease was primarily due to a \$339,000 decrease in salary and employee related expenses and a \$95,000 decrease in marketing expenses for Travelzoo members.

Foreign currency movements relative to the U.S. dollar positively impacted our loss from our operations in Asia Pacific by approximately \$60,000 for the three months ended March 31, 2019. Foreign currency movements relative to the U.S. dollar negatively impacted our local currency loss from our operations in Asia Pacific by approximately \$61,000 for the three months ended March 31, 2018.

Europe

	Three Months Ended March 31,	
	2019	2018
	(In thousands)	
Revenue	\$ 10,573	\$ 10,280
Operating profit	\$ 2,137	\$ 1,966
Operating profit as a % of revenue	20.2%	19.1%

Europe revenues increased \$293,000 for the three months ended March 31, 2019 from the three months ended March 31, 2018 (see "Revenues" above). Europe expenses increased \$122,000 for the three months ended March 31, 2019 from the three months ended March 31, 2018 primarily due to increase in member acquisition costs.

Foreign currency movements relative to the U.S. dollar negatively impacted our local currency income from our operations in Europe by approximately \$151,000 for the three months ended March 31, 2019. Foreign currency movements relative to the U.S. dollar positively impacted our local currency income from our operations in Europe by approximately \$259,000 for the three months ended March 31, 2018.

North America

	Three Months Ended March 31,	
	2019	2018
	(In thousands)	
Revenue	\$ 18,587	\$ 18,582
Operating profit	\$ 4,469	\$ 3,431
Operating profit as a % of revenue	24.0%	18.5%

North America revenues increased \$5,000 for the three months ended March 31, 2019 from the three months ended March 31, 2018 (see "Revenues" above). North America expenses decreased \$1.0 million for the three months ended March 31, 2019 from the three months ended March 31, 2018 primarily due to a \$819,000 decrease in salary and employee related expenses and a \$247,000 decrease in professional service expenses.

Liquidity and Capital Resources

As of March 31, 2019, we had \$19.9 million in cash and cash equivalents, of which \$11.5 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. 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. We expect that cash on hand will be sufficient to provide for working capital needs for at least the next twelve months

	Three Months Ended March 31,	
	2019	2018
	(In thousands)	
Net cash provided by operating activities	\$ 3,406	\$ 179
Net cash used in investing activities	(131)	(65)
Net cash used in financing activities	(1,617)	—
Effect of exchange rate changes on cash, cash equivalents and restricted cash	152	456
Net increase in cash, cash equivalents and restricted cash	<u>\$ 1,810</u>	<u>\$ 570</u>

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 for the three months ended March 31, 2019 was \$3.4 million, which consisted of net income of \$3.1 million and adjustments for non-cash items of \$1.0 million, offset by a \$763,000 decrease in cash from changes in operating assets and liabilities. The decrease in cash from changes in operating assets and liabilities primarily consisted of \$3.0 million increase in accounts receivable, offset partially by the \$1.6 million increase in accrued expenses and other.

Net cash used in operating activities is net income adjusted for certain non-cash items and changes in assets and liabilities. Net cash provided by operating activities for the three months ended March 31, 2018 was \$179,000, which consisted of net income of \$2.5 million and adjustments for non-cash items of \$193,000, offset partially by a \$2.5 million decrease in cash from changes in operating assets and liabilities. Adjustments for non-cash items primarily consisted of \$384,000 depreciation and amortization expense on property and equipment. The decrease in cash from changes in operating assets and liabilities primarily consisted of \$2.2 million decrease in accounts payable and accrued expenses and other.

Cash refunded for income tax, net of payment made, during the three months ended March 31, 2019 was \$60,000 and cash paid for income tax, net of refunds received, during the three months ended March 31, 2018 was \$779,000.

Net cash used in investing activities for the three months ended March 31, 2019 and March 31, 2018 was \$131,000 and \$65,000, respectively, due to purchases of property and equipment.

Net cash used in financing activities for the three months ended March 31, 2019 was \$1.6 million primarily due to repurchases of our common stock. We did not use cash in financing activities for the three months ended March 31, 2018.

Although we have settled the states unclaimed property claims with all states, we may still receive inquiries from certain potential Netsurfer 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 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 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 Travelzoo.com Corporation, 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 Travelzoo.com Corporation, 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 our 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.

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 3: Commitments and Contingencies" and "Note 9: Leases" to the accompanying unaudited condensed consolidated financial statements included in Part I, Item 1 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.

We also have contingencies related to net unrecognized tax benefits, including interest, of approximately \$432,000 as of March 31, 2019. See "Note 4: Income Taxes" to the accompanying unaudited condensed consolidated financial statements for further information.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those that we believe are important in the preparation of our consolidated financial statements because they require that we use judgment and estimates in applying those policies. Preparation of the consolidated financial statements and accompanying notes requires that we make estimates and assumptions that affect the reported amounts and classifications of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements as well as revenue and expenses during the periods reported. We base our estimates on historical experience, where applicable, and other assumptions that we believe are reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions. Our critical accounting policies include revenue recognition, reserve for member refunds, allowance for doubtful accounts, income taxes and loss contingencies. For additional information about our critical accounting policies and estimates, see the disclosure included in our Annual Report on Form 10-K for the year ended December 31, 2018 as well as updates in the current fiscal year provided in "Note 1 Summary of Significant Accounting Policies" in the notes to the condensed consolidated financial statements.

Recent Accounting Pronouncements

See "Note 1—The Company and Basis of Presentation" to the accompanying unaudited condensed consolidated financial statements included in this report, regarding the impact of certain recent accounting pronouncements on our unaudited condensed consolidated financial statements.

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.

During the three months ended March 31, 2019 and 2018, we generated a net income of \$3.1 million and \$2.5 million, respectively. During the year ended December 31, 2018, we generated net income of \$4.7 million. Although we were profitable in 2018 and during the three months ended March 31, 2019 and 2018, there is no assurance that we will 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 and 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 and retain key personnel;
- 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.

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 offering to include the addition of a hotel booking platform and our investment in packaging technology may result in additional costs that exceed revenue and may trigger additional stock volatility.

We have been in the process of expanding our hotel booking platform and 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 hotel booking platform or 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 room 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 the hotel booking platform or to our other 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. In the past year, 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 *Getaway* 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 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 in certain regions, and may continue to decline, 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 has 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 continuing to evolve 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, 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 purchased or algorithmic placement 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 results causing a website to place lower in search query results. If a major search engine changes its algorithms or results in a manner that negatively affects the search engine ranking, paid or unpaid, of our websites or that of our third-party distribution partners, or if competitive dynamics impact the costs or effectiveness of search engine optimization, search engine marketing or other traffic-generating arrangements in a negative manner, our business and financial performance would be adversely affected, potentially to a material extent.

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

Widespread adoption of mobile devices, such as the iPhone and Android-enabled smart phones, and tablets such as the iPad, coupled with the improved web browsing functionality and development of thousands of useful “apps” available on these devices, is driving substantial traffic and commerce activity to mobile platforms. We have experienced a significant shift of business to mobile platforms and our advertising partners are also seeing 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. 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 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 have made progress creating mobile offerings which have received strong reviews and have shown solid download trends. We believe that mobile bookings 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. 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 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 tax law changes made by the Tax Act are broad and complex, and there continue to be significant uncertainties about how the Tax Act will be interpreted at both the U.S. federal and state levels, and additional guidance is still expected to be issued. 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.

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 offering to include a hotel booking platform and packaging technology 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 e-mail communications with our members. If current clients decide not to continue advertising their offers with us and we are unable to replace them with new clients, 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, 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. 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 *Getaway* 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*, *Getaway* 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*, *Getaway*, and hotel booking platform, depending on how many vouchers are purchased by members and how many hotel bookings are made. In addition, we are anticipating a shift from our existing hotel revenue to commission-based revenue in connection with the continued expansion of our hotel booking platform, which may result in lower revenue depending on volume of hotel bookings.

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

We provide refunds related to our *Local Deals* and *Getaway* 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 or merchants that are outside our control. For our *Local Deals* and *Getaway* merchants, since we are selling vouchers on behalf of the merchants directly to our members, we face exposures should merchants not fully honor the deals. 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 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 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 e-mail and other messaging services, and any restrictions on the sending of e-mails or messages or a decrease in member willingness to receive messages could adversely affect our revenue and business.

Our business is highly dependent upon e-mail and other messaging services. Deals offered through e-mails 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 e-mail and other messaging services to our businesses, if we are unable to successfully deliver e-mails or messages to our members or potential members, or if members decline to open our e-mails or messages, our revenue and profitability would be adversely affected. New laws and regulations regulating the sending of commercial e-mails, including those enacted in foreign jurisdictions (such as Canada and Europe), may affect our ability to deliver e-mails 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 e-mails or other messages could also materially and adversely impact our business. From time to time, Internet service providers block bulk e-mail transmissions or otherwise experience technical difficulties that result in our inability to successfully deliver e-mails or other messages to third parties. In addition, our use of e-mail 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 e-mails or other messages. Any disruption or restriction on the distribution of e-mails 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 e-mail member, which could adversely affect our revenue and profitability.

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 e-mails because our e-mails 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 e-mail 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 three months ended March 31, 2019, our cash and cash equivalents increased by \$1.9 million to \$19.9 million, of which \$11.5 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 Notes 3 and 4 to the accompanying unaudited condensed 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 in the travel industry could adversely affect the hotel booking platform 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 e-mail 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. 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, 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 ham 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 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 U.K. 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, Taiwan, and Southeast Asia.

Our revenues in Asia decreased 18% in the three months ended March 31, 2019 from the same period last year. Our operations in Asia generated an operating loss before tax of \$1.6 million and \$1.7 million for the three months ended March 31, 2019 and 2018, respectively. Our revenues in Europe increased 3% in the three months ended March 31, 2019 from the same period last year. Our operations in Europe generated an operating income before tax of \$2.1 million and \$2.0 million for the three months ended March 31, 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;
- 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 implementation of Brexit, could result in other member countries also determining to leave, which 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, including our expansion in Asia Pacific. 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.

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, Taiwan, 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 the Asia Pacific transaction, 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 \$2.5 million and \$2.3 million on marketing initiatives relating to member acquisition and marketing for the three months ended March 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 and natural disasters, such as hurricanes, earthquakes, fires, droughts, floods and volcanic activity, 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 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; 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.

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 and Bing that offer pay-per-click listings. Additionally, certain search engines have increased their focus on acquiring or launching flight and hotel search products. For example, Google has entered various aspects of the online travel market, including by establishing a flight metasearch product ("Google Flights") and a hotel metasearch product ("Hotel Ads") that are growing, as well as its "Book on Google" reservation functionality. 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. For example, Ctrip acquired Skyscanner and Priceline (now Booking Holdings) acquired Momondo. 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 and HomeAway (which is owned by Expedia) offer services providing alternative accommodation property owners, particularly individuals, an online place to list their 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. 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.

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.

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 31, 2019, the closing price of our common stock on the NASDAQ Global Select Market ranged from \$6.70 to \$20.60. 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 March 31, 2019, Azzurro is the Company's largest stockholder, holding approximately 50.1% of the Company's outstanding shares.

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.

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, 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 *Getaway* 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 *Getaway* 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 *Getaway*.

If we are required to materially increase the estimated liability recorded in our financial statements with respect to unredeemed Local Deals and Getaway 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 *Getaway* vouchers may be considered gift cards. 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, 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. We are continuing to evaluate the future 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 e-mail may subject us to potential risks, such as liabilities or claims resulting from unsolicited e-mail or spamming, lost or misdirected messages, security breaches, illegal or fraudulent use of e-mail or interruptions or delays in e-mail 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 General Data Protection Regulation ("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 payment under this voluntary program for the three months ended March 31, 2019.

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 Getaway 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 *Getaway* 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 or require us to change business practices or develop non-infringing intellectual property, which could require significant effort and expense.

Item 3. 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 are a net receiver of U.S. dollars from our foreign subsidiaries and therefore benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to the foreign currency used by the foreign subsidiary as its functional currency. We have performed a sensitivity analysis as of March 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 March 31, 2019. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in an incremental \$53,000 foreign exchange loss for the three month ended March 31, 2019.

Item 4. Controls and Procedures

Based on management's evaluation (with the participation of the Company's Global Chief Executive Officer (CEO) and Principal Accounting Officer (PAO)), as of March 31, 2019, our CEO and PAO 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 PAO, as appropriate, to allow timely decisions regarding required disclosure.

During the quarter ended March 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.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under “Note 3—Commitments and Contingencies” to the accompanying unaudited condensed consolidated financial statements included in Part I, Item 1 of this report is incorporated herein by reference.

Item 1A. Risk Factors

An updated description of the risk factors associated with our business is included under “Risk Factors” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contained in Item 2 of Part I of this report. This description includes any material changes to and supersedes the description of the risk factors associated with our business previously disclosed in Item 1A of our 2018 Annual Report on Form 10-K and is incorporated herein by reference.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases of Equity Securities

We repurchased 100,000 shares of our equity securities during the three months ended March 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
January 1, 2019–January 31, 2019	—	\$ —	—	—
February 1, 2019–February 28, 2019	100,000	\$ 15.90	—	—
March 1, 2019–March 31, 2019	—	\$ —	—	—
	<u>100,000</u>		<u>—</u>	

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.

Item 6. Exhibits

The following table sets forth a list of exhibits:

<u>Exhibit Number</u>	<u>Description</u>
<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 Incorporation of Travelzoo and Certificates of Amendment To the Certificate of Incorporation to Effect a Reverse Stock Split Followed by a Forward Stock Split Of Travelzoo's Common Stock.
<u>3.3</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>10.3*</u>	— Employment Agreement, dated October 11, 2012 between Christian Alexander Smart and Travelzoo (Incorporated by reference to Exhibit 10.3 on Form 10-Q (File No. 000-50171), filed May 10, 2018)
<u>20.20*</u>	— Nonqualified Stock Option Agreement between Travelzoo and Sharry Sun dated May 14, 2018 (Incorporated by reference to Exhibit 10.20 on Form 8-K (File No. 000-50171), filed May 14, 2018)
<u>10.22*</u>	— Employment Agreement, dated June 28, 2018 between Michael Peterson and Travelzoo (Incorporated by reference to Exhibit 10.21 on Form 8-K (File No. 000-50171), filed June 28, 2018)
<u>10.23*</u>	— Nonqualified Stock Option Agreement between Travelzoo and Michael Peterson dated June 22, 2018 (Incorporated by reference to Exhibit 10.21 on Form 8-K (File No. 000-50171), filed June 28, 2018)
<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 Principal Accounting 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 Principal Accounting 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

SIGNATURE

Pursuant to the requirements 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
(Registrant)

By: _____ /s/ LISA SU
Lisa Su
On behalf of the Registrant and as Principal Accounting Officer

Date: May 10, 2019

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Holger Bartel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Travelzoo;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ HOLGER BARTEL

Holger Bartel

Global Chief Executive Officer

Date: May 10, 2019

**CERTIFICATION OF PRINCIPAL ACCOUNTING OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Lisa Su, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Travelzoo;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ LISA SU

Lisa Su

Principal Accounting Officer

Date: May 10, 2019

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to the requirements of the Securities Exchange Act of 1934, and in connection with the quarterly report of Travelzoo on Form 10-Q for the three months ended March 31, 2019, the undersigned hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that (1) this report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and (2) the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

Date: May 10, 2019

By: /s/ HOLGER BARTEL
Holger Bartel
Global Chief Executive Officer

**CERTIFICATION OF PRINCIPAL ACCOUNTING OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to the requirements of the Securities Exchange Act of 1934, and in connection with the quarterly report of Travelzoo on Form 10-Q for the three months ended March 31, 2019, the undersigned hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that (1) this report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and (2) the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

Date: May 10, 2019

By: /s/ LISA SU

Lisa Su

Principal Accounting Officer