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 September 30, 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	**36-4415727**
(State or other jurisdiction of incorporation or organization)	**(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	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒
		Emerging growth company	☐

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 October 25, 2019 was 11,679,033 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)

	September 30, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,605	$ 18,017
Accounts receivable, less allowance for doubtful accounts of $943 and $692 as of September 30, 2019 and December 31, 2018, respectively	12,317	12,646
Income tax receivable	930	389
Deposits	141	167
Prepaid expenses and other	1,965	1,947
Total current assets	26,958	33,166
Deposits and other	669	685
Deferred tax assets	1,347	1,645
Restricted cash	1,308	1,444
Investment in WeekenGO	2,635	2,694
Operating lease right-of-use assets	17,523	—
Property and equipment, net	3,142	3,790
Total assets	$ 53,582	$ 43,424
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 13,007	$ 17,129
Accrued expenses and other	6,866	7,853
Deferred revenue	1,119	1,339
Operating lease liabilities	7,028	—
Income tax payable	446	489
Total current liabilities	28,466	26,810
Long-term tax liabilities	343	418
Long-term operating lease liabilities	12,291	—
Long-term deferred rent and other	84	2,137
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value (20,000 shares authorized; 11,679 and 11,962 shares issued and outstanding as of September 30, 2019 and December 31, 2018)	117	120
Additional paid in capital	—	—
Retained earnings	16,731	18,153
Accumulated other comprehensive loss	(4,450)	(4,214)
Total stockholders' equity	12,398	14,059
Total liabilities and stockholders' equity	$ 53,582	$ 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 September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Revenues	$ 25,505	$ 25,301	$ 84,514	$ 84,260
Cost of revenues	2,980	2,987	8,683	9,388
Gross profit	22,525	22,314	75,831	74,872
Operating expenses:				
Sales and marketing	14,233	13,375	45,196	44,545
Product development	1,478	2,297	4,980	7,194
General and administrative	5,600	5,928	17,046	17,684
Total operating expenses	21,311	21,600	67,222	69,423
Income from operations	1,214	714	8,609	5,449
Other income (expense), net	(138)	(91)	(380)	100
Income before income taxes	1,076	623	8,229	5,549
Income tax expense	770	505	3,475	2,452
Net income	$ 306	$ 118	$ 4,754	$ 3,097
Net income per share—basic	$ 0.03	$ 0.01	$ 0.40	$ 0.25
Net income per share—diluted	$ 0.03	$ 0.01	$ 0.39	$ 0.25
Shares used in computing basic net income per share	11,767	12,314	11,894	12,412
Shares used in computing diluted net income per share	11,956	12,663	12,152	12,630

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	$ 306	$ 118	$ 4,754	$ 3,097
Other comprehensive income (loss):				
Foreign currency translation adjustment	(221)	138	(236)	(380)
Total comprehensive income	$ 85	$ 256	$ 4,518	$ 2,717

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Cash flows from operating activities:		
Net income	$ 4,754	$ 3,097
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	999	1,390
Stock-based compensation	876	763
Deferred income tax	431	(96)
Gain from sale of property and equipment	—	(143)
Loss on equity investment in WeekenGO	611	85
Net foreign currency effect	59	(77)
Other	132	77
Changes in operating assets and liabilities:		
Accounts receivable	(127)	(1,086)
Income tax receivable	(541)	(350)
Prepaid expenses and other	(3)	420
Accounts payable	(3,971)	(3,600)
Accrued expenses and other	(442)	(248)
Income tax payable	(36)	(65)
Other liabilities	(816)	(131)
Net cash provided by operating activities	1,926	36
Cash flows from investing activities:		
Proceeds from sale of property and equipment	—	150
Investment in WeekenGO	(673)	(3,083)
Purchases of property and equipment	(350)	(666)
Net cash used in investing activities	(1,023)	(3,599)
Cash flows from financing activities:		
Repurchase of common stock	(8,768)	(2,873)
Proceeds from exercise of stock options, net of taxes paid for net share settlement of equity awards	1,712	—
Net cash used in financing activities	(7,056)	(2,873)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(395)	(333)
Net decrease in cash, cash equivalents and restricted cash	(6,548)	(6,769)
Cash, cash equivalents and restricted cash at beginning of period	19,461	24,001
Cash, cash equivalents and restricted cash at end of period	$ 12,913	$ 17,232
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net	$ 3,776	$ 2,963
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 7,578	$ —
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows	$ 4,084	$ —

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)	(137)	(1,452)	—	(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	—	19,821	(4,303)	15,637
Stock-based compensation expense	—	—	319	—	—	319
Repurchase and retirement of common stock	(250)	(2)	(2,055)	(2,812)	—	(4,869)
Exercise of stock options and taxes paid for net share settlement of equity awards	250	2	1,736	—	—	1,738
Foreign currency translation adjustment	—	—	—	—	74	74
Net income	—	—	—	1,328	—	1,328
Balances, June 30, 2019	11,865	119	—	18,337	(4,229)	14,227
Stock-based compensation expense	—	—	394	—	—	394
Repurchase and retirement of common stock	(186)	(2)	(394)	(1,912)	—	(2,308)
Foreign currency translation adjustment	—	—	—	—	(221)	(221)
Net income	—	—	—	306	—	306
Balances, September 30, 2019	11,679	$ 117	$ —	$ 16,731	$ (4,450)	$ 12,398

	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
Stock-based compensation expense	—	—	349	—	—	349
Foreign currency translation adjustment	—	—	—	—	(335)	(335)
Net income	—	—	—	477	—	477
Balances, June 30, 2018	12,462	125	522	20,843	(4,115)	17,375
Stock-based compensation expense	—	—	243	—	—	243
Repurchase and retirement of common stock	(218)	(3)	(765)	(2,107)	—	(2,875)
Foreign currency translation adjustment	—	—	—	—	138	138
Net income	—	—	—	118	—	118
Balances, September 30, 2018	12,244	$ 122	$ —	$ 18,854	$ (3,977)	$ 14,999

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 our deal experts around the globe. With 25 offices worldwide, we have our finger on the pulse of outstanding travel, entertainment, and lifestyle experiences. For over 20 years we have worked in partnership with top travel suppliers—our long-standing relationships give Travelzoo members access to irresistible deals. Travelzoo's revenues are generated primarily from advertising fees.

Our publications and products include the *Travelzoo* website, the *Travelzoo* iPhone and Android apps, the *Travelzoo Top 20* email newsletter, the *Newsflash* email alert service, and the *Travelzoo Network*, a network of third-party websites that list travel deals published by Travelzoo. Our *Travelzoo* website includes *Local Deals* and *Getaways* 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 September 30, 2019, Azzurro is the Company's largest stockholder, holding approximately 47.0% of the Company's outstanding shares. Azzurro currently holds a proxy given to it by Holger Bartel that provides it with a total of 49.1% of the voting power.

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 GmbH ("WeekenGo"), a start-up company in Germany. WeekenGO uses new technology to promote vacation packages. Travelzoo initially 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. In April 2019, the Company invested an additional $673,000 in WeekenGO and increased the Company's ownership interest to 26.6%. WeekenGO is in the process of obtaining additional capital funding. If WeekenGO is unsuccessful in this round of funding, it will face cash flow liquidity risk, and the Company’s investment in WeekenGO may become impaired.

During the three and nine months ended September 30, 2019, the Company recorded $323,000 and $732,000, respectively, 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.

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 and nine months ended September 30, 2019 were $130,000 and $924,000, respectively.

The results of operations for the three and nine months ended September 30, 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 June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which provides new guidance on the measurement of credit losses for financial assets measured at amortized cost, which includes accounts receivable. The new guidance replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. This update is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Entities are required to apply this update on a modified retrospective basis with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact on its financial position and results of operations.

In August 2018, the 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:

	September 30, 2019	December 31, 2018
Cash and cash equivalents	$ 11,605	$ 18,017
Restricted cash	1,308	1,444
Total cash, cash equivalents and restricted cash in the condensed consolidated statements of cash flows	$ 12,913	$ 19,461

The Company’s restricted cash was included in noncurrent assets as ofSeptember 30, 2019 and December 31, 2018.

Revenue Recognition

On January 1, 2018, the Company adopted Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), using the modified retrospective transition method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

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

The Company generates revenues primarily by delivering advertising on the *Travelzoo* website, in the *Top 20* email newsletter, in *Newsflash* and from the *Travelzoo Network*. The Company also generates transaction-based revenues from the sale of vouchers through our *Local Deals and Getaways* products and operation of hotel booking platform and vacation packages. The Company's disaggregated revenues are included in "Note 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, Getaways,* hotel platform and vacation packages, the Company evaluates whether it is the principal (i.e., report revenue on a gross basis) versus an agent (i.e., report revenue on a net basis). The Company reports transaction revenue on a net basis because the supplier is primarily responsible for providing the underlying service and we do not control the service provided by the supplier prior to its transfer to the customer.

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

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

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

The Company relies upon the following practical expedients and exemptions allowed for in the 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 $89,000 and $1.1 million was recognized as revenue during the three and nine months ended September 30, 2019, respectively.

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 September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Numerator:				
Net income	$ 306	$ 118	$ 4,754	$ 3,097
Denominator:				
Weighted average common shares—basic	11,767	12,314	11,894	12,412
Effect of dilutive securities: stock options	189	349	258	218
Weighted average common shares—diluted	11,956	12,663	12,152	12,630
Net income per share—basic	$ 0.03	$ 0.01	$ 0.40	$ 0.25
Net income per share—diluted	$ 0.03	$ 0.01	$ 0.39	$ 0.25

For the three and nine months ended September 30, 2019, options to purchase 1,050,000 shares of common stock were not included in the computation of diluted net income per share because the effect would have been anti-dilutive. For the three and nine months ended September 30, 2018, options to purchase 220,000 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 Netsurfers. In 2004, two years following the effective date of the merger, certain promotional shares remained unexchanged. As the right to exchange these promotional shares expired, no additional shares were reserved for issuance. Thereafter, the Company began to offer a voluntary cash program for those who established that they had satisfied certain prerequisite qualifications for Netsurfers promotional shares as further described below.

During 2010 through 2014, the Company became subject to unclaimed property audits of various states in the United States related to the above unexchanged promotional shares and completed settlements with all states. Although the Company has settled the unclaimed property claims with all states, the Company may still receive inquiries from certain potential Netsurfers promotional stockholders that had not provided their state of residence to the Company by April 25, 2004. Therefore, the Company is continuing its voluntary program under which it makes cash payments to individuals related to the promotional shares for individuals whose residence was unknown by the Company and who establish that they satisfy the original conditions required for them to receive shares of Netsurfers, and who failed to submit requests to convert their shares into shares of Travelzoo within the required time period. This voluntary program is not available for individuals whose promotional shares have been escheated to a state by the Company, except those individuals for which their residence was unknown to the Company. The Company did not make any payments for the three and nine months ended September 30, 2019 and 2018.

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

The Company has operating leases. Refer to Note 9 for contractual commitments as of September 30, 2019.

Local Deals and *Getaways* merchant payables included in accounts payable were $7.1 million and $11.8 million, as of September 30, 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 September 30, 2019 and 2018, the Company's effective tax rate was 72% and 81%, respectively. For the nine months ended September 30, 2019 and 2018, the Company's effective tax rate was 42% and 44%, respectively. The Company's effective tax rate decreased for the three and nine months ended September 30, 2019 from the corresponding three and nine months ended September 30, 2018, primarily due to the geographic mix of income from continuing operations, and foreign losses not benefited.

As of September 30, 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 $469,000.

The Company maintains liabilities for uncertain tax positions. At September 30, 2019, the Company had approximately $145,000 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 September 30, 2019 and December 31, 2018, the Company had approximately $204,000 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 2015 and is subject to California tax examinations for years after 2013.

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Beginning balance	$ (4,229)	$ (4,115)	$ (4,214)	$ (3,597)
Other comprehensive income (loss) due to foreign currency translation, net of tax	(221)	138	(236)	(380)
Ending balance	$ (4,450)	$ (3,977)	$ (4,450)	$ (3,977)

There were no amounts reclassified from accumulated other comprehensive loss for the three months ended September 30, 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 first quarter of 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 September 30, 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 first quarter of 2019, the remaining 50,000 options were net exercised for 4,000 shares of common stock.

In October 2017, the Company granted an executive stock options to purchase 400,000 shares of common stock with an exercise price of $6.95, of which 50,000 shares are exercisable quarterly starting March 31, 2018 and ending on December 31, 2019. The options expire in 2027. During the nine months ended September 30, 2019, 250,000 options were exercised. As of September 30, 2019, 150,000 options were outstanding and 100,000 of these options were vested. Total stock-based compensation for the three and nine months ended September 30, 2019, related to these option grants was $143,000 and $430,000, respectively. As of September 30, 2019, there was approximately $143,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 0.3 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 first quarter of 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 September 30, 2019, 50,000 options were outstanding and 12,500 of these options were vested. Total stock-based compensation for the three and nine months ended September 30, 2019, related to these option grants was $22,000 and $67,000, respectively. As of September 30, 2019, there was approximately $235,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 2.6 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 September 30, 2019, 50,000 options were outstanding and 12,500 of these options were vested. Total stock-based compensation for the three and nine months ended September 30, 2019, related to these option grants was $21,000 and $53,000, respectively. As of September 30, 2019, there was approximately $226,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 2.7 years.

In May 2019, the Company granted an employee options to purchase 100,000 shares of common stock with an exercise price of $19.28, of which 10,000 options vested and became exercisable in May 2019, 15,000 options vested and become exercisable in September 2019, and the remaining 75,000 will vest in three equal installments starting on May 20, 2021 and ending on May 20, 2023. As of September 30, 2019, 100,000 options were outstanding and 25,000 of these options were vested. Total stock-based compensation for the three and nine months ended September 30, 2019, related to these option grants was $93,000 and $239,000, respectively. As of September 30, 2019, there was approximately $639,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 3.6 years.

In September 2019, the Company granted employees stock options to purchase 450,000 shares of common stock with an exercise price of $10.79, of which 112,500 options vest and become exercisable annually starting on September 5, 2020 and ending on December 31, 2023. These grants are subject to approval by the shareholders of the Company at the 2020 annual meeting of shareholders and may be unwound if approval is not received. The options expire in 2024. As of September 30, 2019, 450,000 options were outstanding and none of these options were vested. Total stock-based compensation for the three and nine months ended September 30, 2019, related to these option grants was $46,000. As of September 30, 2019, there was approximately $2.2 million of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 3.9 years.

In September 2019, the Company granted an executive stock options to purchase 400,000 shares of common stock with an exercise price of $10.79, of which 50,000 shares are exercisable quarterly starting March 31, 2020 and ending on December 31, 2021. This grant is subject to approval by the shareholders of the Company at the 2020 annual meeting of shareholders and may be unwound if approval is not received. The options expire in 2024. As of September 30, 2019, 400,000 options were outstanding and none of these options were vested. Total stock-based compensation for the three and nine months ended September 30, 2019, related to these option grants was $68,000. As of September 30, 2019, there was approximately $1.8 million of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 2.3 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 Azzurro, 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. During the three and nine months ended September 30, 2019, the Company repurchased 186,369 and 436,369 shares of common stock for an aggregate purchase price of $2.3 million and $7.2 million, respectively, under this stock repurchase program.

Note 8: Segment Reporting and Significant Customer Information

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

Management relies on an internal management reporting process that provides revenue and segment operating 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 September 30, 2019	Asia Pacific	Europe	North America	Consolidated
Revenues from unaffiliated customers	$ 1,630	$ 9,432	$ 14,443	$ 25,505
Intersegment revenues (expenses)	43	(938)	895	—
Total net revenues	1,673	8,494	15,338	25,505
Operating profit (loss)	$ (2,051)	$ 815	$ 2,450	$ 1,214

Three Months Ended September 30, 2018	Asia Pacific	Europe	North America	Consolidated
Revenues from unaffiliated customers	$ 1,977	$ 8,396	$ 14,928	$ 25,301
Intersegment revenues (expenses)	10	(18)	8	—
Total net revenues	1,987	8,378	14,936	25,301
Operating profit (loss)	$ (1,600)	$ 940	$ 1,374	$ 714

Nine Months Ended September 30, 2019	Asia Pacific	Europe	North America	Consolidated
Revenues from unaffiliated customers	$ 4,822	$ 29,619	$ 50,073	$ 84,514
Intersegment revenues (expenses)	96	(1,870)	1,774	—
Total net revenues	4,918	27,749	51,847	84,514
Operating profit (loss)	$ (5,469)	$ 3,536	$ 10,542	$ 8,609

Nine Months Ended September 30, 2018	Asia Pacific	Europe	North America	Consolidated
Revenues from unaffiliated customers	$ 6,092	$ 27,255	$ 50,913	$ 84,260
Intersegment revenues (expenses)	(19)	(97)	116	—
Total net revenues	6,073	27,158	51,029	84,260
Operating profit (loss)	$ (4,812)	$ 3,347	$ 6,914	$ 5,449

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 and nine months endedSeptember 30, 2019 and 2018, the Company did not have any customers that accounted for 10% or more of revenue. As of September 30, 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*), *Getaways* vouchers, and hotel platform and vacation packages. Local revenue includes *Local Deals* vouchers and entertainment offers (vouchers and direct bookings).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Asia Pacific				
Travel	$ 1,619	$ 1,851	$ 4,751	$ 5,682
Local	54	136	167	391
Total Asia Pacific revenues	$ 1,673	$ 1,987	$ 4,918	$ 6,073
Europe				
Travel	$ 7,727	$ 7,387	$ 24,804	$ 23,849
Local	767	991	2,945	3,309
Total Europe revenues	$ 8,494	$ 8,378	$ 27,749	$ 27,158
North America				
Travel	$ 12,898	$ 12,224	$ 44,467	$ 42,856
Local	2,440	2,712	7,380	8,173
Total North America revenues	$ 15,338	$ 14,936	$ 51,847	$ 51,029
Consolidated				
Travel	$ 22,244	$ 21,462	$ 74,022	$ 72,387
Local	3,261	3,839	10,492	11,873
Total revenues	$ 25,505	$ 25,301	$ 84,514	$ 84,260

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue				
United States	$ 13,817	$ 13,472	$ 47,041	$ 46,564
United Kingdom	4,335	4,921	14,930	15,940
Germany	2,830	2,832	9,262	9,123
Rest of the world	4,523	4,076	13,281	12,633
Total revenues	$ 25,505	$ 25,301	$ 84,514	$ 84,260

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

	September 30, 2019	December 31, 2018
United States	$ 2,514	$ 3,035
Rest of the world	628	755
Total long lived assets	$ 3,142	$ 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, 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 and nine months ended September 30, 2019 ((in thousands):

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost	$ 995	$ 3,337
Short-term lease cost	45	771
Variable lease cost	329	925
Sublease income	(84)	(252)
Total lease cost	$ 1,285	$ 4,781

For the three and nine months ended September 30, 2019, cash payments against the operating lease liabilities totaled $1.5 million and $4.1 million, respectively. ROU assets obtained in exchange for lease obligations was $4.8 million and $7.6 million for three and nine months ended September 30, 2019.

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

	September 30, 2019
Assets:	
Operating lease right-of-use assets	$ 17,523
Liabilities:	
Operating lease liabilities	$ 7,028
Long-term operating lease liabilities	12,291
Total operating lease liabilities	$ 19,319
Weighted average remaining lease term (years)	3.42
Weighted average discount rate	4.4%

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

Years ending December 31,	
2019 (excluding the nine months ended September 30, 2019)	$ 1,902
2020	6,875
2021	5,279
2022	3,794
2023	1,924
Thereafter	1,037
Total lease payments	20,811
Less interest	(1,492)
Present value of operating lease liabilities	$ 19,319

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 our deal experts around the globe. With 25 offices worldwide, we have our finger on the pulse of outstanding travel, entertainment, and lifestyle experiences. For over 20 years we have worked in partnership with more than 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* email newsletter, and the *Newsflash* email alert service. We operate the *Travelzoo Network*, a network of third-party websites that list deals published by Travelzoo. Our *Travelzoo* website includes *Local Deals* and *Getaways* 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 but not limited to, 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, 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 startup 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 *Getaways* advertisers are typically for twelve months and are not automatically renewed. We have two separate groups of our advertising products: Travel and Local.

Our Travel category of revenue includes the publishing revenue for negotiated high-quality deals from travel companies, such as hotels, airlines, cruises or car rentals and includes products such as *Top 20*, *Travelzoo* website, *Newsflash*, *Travelzoo Network* as well as *Getaways* vouchers. The revenues generated from these products are based upon a fee for number of emails 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 emails, 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 *Getaways*). These shifts between advertising services by advertisers could result in no incremental revenue or less revenue than in previous periods depending on the amount purchased by the advertisers, and in particular with *Local Deals* and *Getaways*, depending on how many vouchers are purchased by members. In addition, we are anticipating a shift from our existing hotel revenue to commission-based hotel revenue as we expand the use of our hotel platform, which may result in lower revenue depending on volume of hotel bookings.

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

Our ability to continue to generate advertising revenue depends heavily upon our ability to maintain and grow an attractive audience for our publications. We monitor our members to assess our efforts to maintain and grow our audience reach. We obtain additional members and activity on our websites by acquiring traffic from Internet search companies. The costs to grow our audience have had, and we expect will continue to have, a significant impact on our financial results and can vary from period to period. We may have to increase our expenditures on acquiring traffic to continue to grow or maintain our reach of our publications due to competition. We continue to see a shift in the audience 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 *Getaways* 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 the main driver of general and administrative expenses. Therefore, we expect our absolute general and administrative expenses to continue to increase. We expect our continued expansion into foreign markets to result in an increase in our general and administrative expenses. We expect an increase in professional fees for various initiatives.

We do not know what our income taxes will be in future periods. There may be fluctuations that have a material impact on our results of operations. Our income taxes are dependent on numerous factors such as the geographic mix of our taxable income, foreign, federal, state and local tax law and regulations and changes thereto. Our income taxes are also dependent on the determination of whether valuation allowances for certain tax assets are required or not, audits of prior years' tax returns that result in adjustments, resolution of uncertain tax positions and different treatments 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, and Southeast Asia. We also have launched new products to grow our revenue, such as *Local Deals* in 2010, *Getaways* in 2011, as well as our mobile application launches in 2011 and 2012. In late 2012, we bought an online hotel platform to assist in our development of a product to better serve hotels and to facilitate the development of our hotel platform. We have also increased our spending on addressing the shift of our audience to mobile devices and social media. In April 2018, the Company entered into an agreement with WeekenGO, a startup company in Germany. WeekenGO uses technology to promote vacation packages. Travelzoo 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 is in the process of obtaining additional capital funding. If WeekenGO is unsuccessful in this round of funding, it will face cash flow liquidity risk, and the Company’s investment in WeekenGO may become impaired.

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	11.7	11.8	10.3	11.1
Gross profit	88.3	88.2	89.7	88.9
Operating expenses:				
Sales and marketing	55.8	52.9	53.5	52.9
Product development	5.8	9.1	5.9	8.5
General and administrative	22.0	23.4	20.2	21.0
Total operating expenses	83.6	85.4	79.6	82.4
Income from operations	4.7	2.8	10.1	6.5
Other income (loss), net	(0.5)	(0.3)	(0.4)	0.1
Income before income taxes	4.2	2.5	9.7	6.6
Income tax expense	3.0	2.0	4.1	2.9
Net income	1.2%	0.5%	5.6%	3.7%

Operating Metrics

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

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018
Asia Pacific		
Total members (1)	3,648,000	3,638,000
Average cost per acquisition of a new member	$ 3.87	$ 2.09
Revenue per member (2)	$ 1.81	$ 2.24
Revenue per employee (3)	$ 84,000	$ 95,000
Mobile application downloads	818,000	765,000
Social media followers	608,000	594,000
Europe		
Total members (1)	9,121,000	8,758,000
Average cost per acquisition of a new member	$ 2.19	$ 2.15
Revenue per member (2)	$ 4.22	$ 4.25
Revenue per employee (3)	$ 249,000	$ 225,000
Mobile application downloads	2,033,000	1,825,000
Social media followers	889,000	883,000
North America		
Total members (1)	17,630,000	17,491,000
Average cost per acquisition of a new member	$ 2.20	$ 1.37
Revenue per member (2)	$ 3.96	$ 3.92
Revenue per employee (3)	$ 368,000	$ 318,000
Mobile application downloads	3,636,000	3,385,000
Social media followers	3,232,000	3,123,000
Consolidated		
Total members (1)	30,273,000	29,758,000
Average cost per acquisition of a new member	$ 2.33	$ 1.74
Revenue per member (2)	$ 3.79	$ 3.82
Revenue per employee (3)	$ 272,000	$ 241,000
Mobile application downloads	6,487,000	5,975,000
Social media followers	4,729,000	4,600,000

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Asia Pacific				
Travel	$ 1,619	$ 1,851	$ 4,751	$ 5,682
Local	54	136	167	391
Total Asia Pacific revenues	$ 1,673	$ 1,987	$ 4,918	$ 6,073
Europe				
Travel	$ 7,727	$ 7,387	$ 24,804	$ 23,849
Local	767	991	2,945	3,309
Total Europe revenues	$ 8,494	$ 8,378	$ 27,749	$ 27,158
North America				
Travel	$ 12,898	$ 12,224	$ 44,467	$ 42,856
Local	2,440	2,712	7,380	8,173
Total North America revenues	$ 15,338	$ 14,936	$ 51,847	$ 51,029
Consolidated				
Travel	$ 22,244	$ 21,462	$ 74,022	$ 72,387
Local	3,261	3,839	10,492	11,873
Total revenues	$ 25,505	$ 25,301	$ 84,514	$ 84,260

Asia Pacific

Asia Pacific revenues decreased $314,000 for the three months ended September 30, 2019 from the three months ended September 30, 2018. The decrease was primarily due to a $180,000 decrease in Travel revenue, a $76,000 decrease in Local revenues and a $58,000 negative impact from foreign currency movements relative to the U.S. dollar. The decrease in Travel revenue of $180,000 was primarily due to the decreased number of emails sent. The decrease in Local revenues of $76,000 was primarily due to the decrease in number of *Local Deals* vouchers sold.

Asia Pacific revenues decreased $1.2 million for the nine months ended September 30, 2019 from the nine months ended September 30, 2018. The decrease was primarily due to a $753,000 decrease in Travel revenue, a $209,000 decrease in Local revenues and a $194,000 negative impact from foreign currency movements relative to the U.S. dollar. The decrease in Travel revenue of $753,000 was primarily due to the decreased number of emails sent. The decrease in Local revenues of $209,000 was primarily due to the decrease in number of *Local Deals* vouchers sold.

Europe

Europe revenues increased $116,000 for the three months ended September 30, 2019 from the three months ended September 30, 2018. The increase was primarily due to a $715,000 increase in Travel revenues, offset partially by a $188,000 decrease in Local revenues and a $411,000 negative impact from foreign currency movements relative to the U.S. dollar. The increase in Travel revenue of $715,000 was primarily due to the increased number of emails sent. The decrease in Local revenues of $188,000 was primarily due to the decreased number of *Local Deals* vouchers sold.

Europe revenues increased $591,000 for the nine months ended September 30, 2019 from the nine months ended September 30, 2018. The increase was primarily due to a $2.5 million increase in Travel revenues, offset partially by a $187,000 decrease in Local revenues and a $1.7 million negative impact from foreign currency movements relative to the U.S. dollar. The increase in Travel revenue of $2.5 million was primarily due to the increased number of emails sent. The decrease in Local revenues of $187,000 was primarily due to the decreased number of *Local Deals* vouchers sold.

North America

North America revenues increased $402,000 for the three months ended September 30, 2019 from the three months ended September 30, 2018. This increase was primarily due to a $674,000 increase in Travel revenues, offset partially by a $272,000 decrease in Local revenues. The increase in Travel revenue of $674,000 was primarily due to the increased number of emails sent. The decrease in Local revenues of $272,000 was primarily due to the decreased number of *Local Deals* vouchers sold.

North America revenues increased $818,000 for the nine months ended September 30, 2019 from the nine months ended September 30, 2018. This increase was primarily due to a $1.6 million increase in Travel revenues, offset partially by a $793,000 decrease in Local revenues. The increase in Travel revenue of $1.6 million was primarily due to increased number of emails sent. The decrease in Local revenues of $793,000 was primarily due to the decreased number of *Local Deals* vouchers sold.

For the three and nine months ended September 30, 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 $3.0 million for each of the three months ended September 30, 2019 and September 30, 2018, respectively. Cost of revenues was $8.7 and $9.4 million for the nine months ended September 30, 2019 and September 30, 2018, respectively.

Cost of revenue decreased slightly by $7,000 for the three months ended September 30, 2019 from the three months ended September 30, 2018.

Cost of revenue decreased $705,000 for the nine months ended September 30, 2019 from the nine months ended September 30, 2018 primarily due to a $647,000 decrease in customer service costs.

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 $14.2 million and $13.4 million for the three months ended September 30, 2019 and 2018, respectively. Sales and marketing expenses were $45.2 million and $44.5 million for the nine months ended September 30, 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 September 30, 2019 and 2018, advertising expenses accounted for 19% and 11% of the total sales and marketing expenses, respectively. For the nine months ended September 30, 2019 and 2018, advertising expenses accounted for 20% and 15% of the total sales and marketing expenses, respectively. The goal of our advertising was to acquire new members to our email 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 $858,000 for the three months ended September 30, 2019 from the three months ended September 30, 2018 primarily due to a $800,000 increase in member acquisition costs.

Sales and marketing expenses increased $651,000 for the nine months ended September 30, 2019 from the nine months ended September 30, 2018 primarily due to a $1.7 million increase in member acquisition costs, offset partially by a $780,000 decrease in facilities costs and a $378,000 decrease in salary, employee and contractor related expenses.

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 $1.5 million and $2.3 million for the three months ended September 30, 2019 and 2018, respectively. Product development expenses were $5.0 million and $7.2 million for the nine months ended September 30, 2019 and 2018, respectively.

Product development expenses decreased $819,000 for three months ended September 30, 2019 from the three months ended September 30, 2018 primarily due to the decrease in salary and employee related expenses as the result of a decrease in headcount.

Product development expenses decreased $2.2 million for nine months ended September 30, 2019 from the nine months ended September 30, 2018 primarily due to a $1.7 million decrease in salary and employee related expenses as the result of a decrease in headcount and a $301,000 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 $5.9 million for the three months ended September 30, 2019 and 2018, respectively. General and administrative expenses were $17.0 million and $17.7 million for the nine months ended September 30, 2019 and 2018, respectively.

General and administrative expenses decreased $328,000 for the three months ended September 30, 2019 from the three months ended September 30, 2018 primarily due to a $381,000 decrease in professional service expenses.

General and administrative expenses decreased $638,000 for the nine months ended September 30, 2019 from the nine months ended September 30, 2018 primarily due to a $790,000 decrease in professional service expenses.

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 $770,000 and $505,000 for the three months ended September 30, 2019 and 2018, respectively. Our effective tax rate was 72% and 81% for the three months ended September 30, 2019 and 2018, respectively. Income tax expense was $3.5 million and $2.5 million for the nine months ended September 30, 2019 and 2018, respectively. Our effective tax rate was 42% and 44% for the nine months ended September 30, 2019 and 2018, respectively.

Our effective tax rate decreased for the three and nine months ended September 30, 2019 from the three and nine months ended September 30, 2018 primarily due to the change of geographic mix of our worldwide taxable income and foreign losses not benefited. We expect our effective tax rate to fluctuate in future periods depending on the geographic mix of our worldwide income or losses mainly incurred by our operations in Asia Pacific, 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands)		(In thousands)	
Revenue	$ 1,673	$ 1,987	$ 4,918	$ 6,073
Operating loss	$ (2,051)	$ (1,600)	$ (5,469)	$ (4,812)
Operating loss as a % of revenue	(122.6)%	(80.5)%	(111.2)%	(79.2)%

Asia Pacific revenues decreased $314,000 for the three months ended September 30, 2019 from the three months ended September 30, 2018 (see “Revenues” above). Asia Pacific expenses increased $137,000 for the three months ended September 30, 2019 from the three months ended September 30, 2018. This increase was primarily due to a $309,000 one-time consulting fee for developing Asia Pacific's operating strategy, offset partially by a $157,000 decrease in salary and employee related expenses.

Asia Pacific revenues decreased $1.2 million for the nine months ended September 30, 2019 from the nine months ended September 30, 2018 (see “Revenues” above). Asia Pacific expenses decreased $498,000 for the nine months ended September 30, 2019 from the nine months ended September 30, 2018. This decrease was primarily due to a $799,000 decrease in salary and employee related expenses, offset partially by a $309,000 one-time consulting fee for developing Asia Pacific's operating strategy.

Foreign currency movements relative to the U.S. dollar positively impacted our loss from our operations in Asia Pacific by approximately $30,000 and $289,000 for the three and nine months ended September 30, 2019, respectively. Foreign currency movements relative to the U.S. dollar positively impacted our loss from our operations in Asia Pacific by approximately $44,000 for the three months ended September 30, 2018. Foreign currency movements relative to the U.S. dollar negatively impacted our loss from our operations in Asia Pacific by approximately $42,000 for the nine months ended September 30, 2018.

Europe

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands)		(In thousands)	
Revenue	$ 8,494	$ 8,378	$ 27,749	$ 27,158
Operating profit	$ 815	$ 940	$ 3,536	$ 3,347
Operating profit as a % of revenue	9.6%	11.2%	12.7%	12.3%

Europe revenues increased $116,000 for the three months ended September 30, 2019 from the three months ended September 30, 2018 (see "Revenues" above). Europe expenses increased by $241,000 for the three months ended September 30, 2019 from the three months ended September 30, 2018 primarily due to a $359,000 increase in trade and brand marketing expenses and a $245,000 increase in member acquisition costs, offset partially by a $288,000 decrease in salary and employee related expenses.

Europe revenues increased $591,000 for the nine months ended September 30, 2019 from the nine months ended September 30, 2018 (see "Revenues" above). Europe expenses increased $402,000 for the nine months ended September 30, 2019 from the nine months ended September 30, 2018 primarily due to a $703,000 increase in member acquisition costs and a $422,000 increase in trade and brand marketing expenses, offset partially by a $603,000 decrease in salary and employee related expenses.

Foreign currency movements relative to the U.S. dollar negatively impacted our local currency income from our operations in Europe by approximately $46,000 and $218,000 for the three and nine months ended months ended September 30, 2019, respectively. Foreign currency movements relative to the U.S. dollar negatively impacted our local currency income from our operations in Europe by approximately $4,000 for the three months ended September 30, 2018. Foreign currency movements relative to the U.S. dollar positively impacted our local currency income from our operations in Europe by approximately $189,000 for the nine months ended September 30, 2018

North America

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
Revenue	$ 15,338	$ 14,936	$ 51,847	$ 51,029
Operating profit	$ 2,450	$ 1,374	$ 10,542	$ 6,914
Operating profit as a % of revenue	16.0%	9.2%	20.3%	13.5%

North America revenues increased $402,000 for the three months ended September 30, 2019 from the three months ended September 30, 2018 (see "Revenues" above). North America expenses decreased $674,000 for the three months ended September 30, 2019 from the three months ended September 30, 2018 primarily due to a $341,000 decrease in professional service expenses, a $339,000 decrease in rent expenses and a $277,000 decrease in salary and employee related expenses, offset partially by a $429,000 increase in member acquisition costs.

North America revenues increased $818,000 for the nine months ended September 30, 2019 from the nine months ended September 30, 2018 (see "Revenues" above). North America expenses decreased $2.8 million for the nine months ended September 30, 2019 from the nine months ended September 30, 2018 primarily due to a $1.7 million decrease in salary and employee related expenses, a $1.0 million decrease in professional service expenses, a $628,000 decrease in trade and brand marketing expenses, a $400,000 decrease in rent expenses, offset partially by a $989,000 increase in member acquisition costs.

Liquidity and Capital Resources

As of September 30, 2019, we had $11.6 million in cash and cash equivalents, of which $8.7 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 decreased from $18.0 million as of December 31, 2018 primarily by cash used for repurchases of our common stock, offset partially by cash provided by operating activities. We expect that cash on hand will be sufficient to provide for working capital needs for at least the next twelve months

	Nine Months Ended September 30,	
	2019	2018
	(In thousands)	
Net cash provided by operating activities	$ 1,926	$ 36
Net cash used in investing activities	(1,023)	(3,599)
Net cash used in financing activities	(7,056)	(2,873)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(395)	(333)
Net decrease in cash, cash equivalents and restricted cash	$ (6,548)	$ (6,769)

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 nine months ended September 30, 2019 was $1.9 million, which consisted of net income of $4.8 million and adjustments for non-cash items of $3.1 million, offset by a $5.9 million decrease in cash from changes in operating assets and liabilities. The decrease in cash from changes in operating assets and liabilities primarily consisted of the $4.4 million net decrease in accounts payable and accrued expenses.

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 nine months ended September 30, 2018 was $36,000, which consisted of net income of $3.1 million and adjustments for non-cash items of $2.0 million, offset by a $5.1 million decrease in cash from changes in operating assets and liabilities. Adjustments for non-cash items primarily consisted of $1.4 million depreciation and amortization expense and $763,000 of stock-based compensation expense. The decrease in cash from changes in operating assets and liabilities primarily consisted of $3.6 million decrease in accounts payable and $1.1 million increase in accounts receivable.

Cash paid for income tax, net of refunds received, during thenine months ended September 30, 2019 and September 30, 2018 was $3.8 million and $3.0 million, respectively.

Net cash used in investing activities for the nine months ended September 30, 2019 and September 30, 2018 was $1.0 million and $3.6 million, respectively. The cash used in investing activities for the nine months ended September 30, 2019 was primarily due to $673,000 investment in WeekenGO and $350,000 in purchases of property and equipment. The cash used in investing activities for the nine months ended September 30, 2018 was primarily due to $3.1 million investment in WeekenGO and $666,000 in purchases of property and equipment, offset partially by $150,000 proceeds from sale of property and equipment.

Net cash used in financing activities for the nine months ended September 30, 2019 was $7.1 million primarily due to a $8.8 million payment for repurchase common stock, offset partially by proceeds from the issuance of common stock, net of tax paid for the net share settlement, of $1.7 million. Net cash used in financing activities for the nine months ended September 30, 2018 was due to repurchases of our common stock.

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

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

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

Although we currently believe that we have sufficient capital resources to meet our anticipated working capital and capital expenditure requirements for at least the next twelve months, unanticipated events and opportunities or a less favorable than expected development of our business with one or more of 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 $349,000 as of September 30, 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.

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 Dollar. 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 September 30, 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 September 30, 2019. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in an incremental $58,000 foreign exchange loss for the nine months ended September 30, 2019.

Item 4. Controls and Procedures

Based on management's evaluation (with the participation of the Company's Global Chief Executive Officer (CEO) and Chief Accounting Officer (CAO)), as of September 30, 2019, our CEO and CAO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in U.S. SEC rules and forms, and that such information is accumulated and communicated to management, including our CEO and CAO, as appropriate, to allow timely decisions regarding required disclosure.

During the quarter ended September 30, 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

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, which could materially affect our business, financial position, or results of operations. These are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial position, or results of operations.

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. In June 2017 and March 2019, the European Commission fined Google 2.4 billion Euros and 1.5 billion Euros, respectively, for anti-competitive behavior relating to its comparison-shopping service and online search advertising services. If a major search engine, such as Google, changes its algorithms or results, whether as a result of a court order, investigation or other reason, 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.

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

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.

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

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

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 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.

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

The markets for the services we offer are intensely competitive, constantly evolving and subject to rapid change, and current and new competitors can launch new services at a relatively low cost. We compete for advertising dollars with large Internet portal sites, such as Trip Advisor, that offer listings or other advertising opportunities to travel, entertainment and local businesses. These companies have significantly greater financial, technical, marketing and other resources and larger advertiser bases. We compete with search engines like Google that offer pay-per-click listings. Additionally, certain search engines have increased their focus on acquiring or launching travel products. For example, Google has continued to add features and functionality to its flight and hotel metasearch products ("Google Flights" and "Hotel Ads"), which have grown and are continuing to grow rapidly and has also further integrated its "Book on Google" reservation functionality into the Hotel Ads product. We compete with travel metasearch engines like Kayak.com (owned by Booking Holdings) and online travel and entertainment deal publishers (including online restaurant reservation services). We compete with large online travel agencies like the Expedia Group and Booking Holdings, as well as thousands of individual travel agencies around the world, that also offer advertising placements and hotel booking platforms and capture consumer interest. As a result of our acquisition of Travelzoo Asia Pacific, we compete or may compete in the future with large online travel service providers, like Ctrip (which owns Trip.com) and eLong. There has been substantial consolidation of the global travel industry and we believe this trend will continue. Some of our competitors are large companies that have significant resources and substantial international operations. These large companies have completed acquisitions to further consolidate the online travel industry. 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 (which recently acquired HotelTonight),HomeAway and VRBO (which are both owned by Expedia Group) offer services providing alternative accommodation property owners, particularly individuals, an online place to list their alternative accommodations where travelers can search and book such properties and compete with our hotel booking platform and hotel offers. Further, meta-search services may lower the cost for new companies to enter the market by providing a distribution channel without the cost of promoting the new entrant's brand to drive consumers directly to its website. Some of our competitors and potential competitors offer a variety of online services, such as food delivery, shopping, gaming or search services, many of which are used by consumers more frequently than online travel services. As a result, a competitor or potential competitor that has established other, more frequent online interactions with consumers may be able to more easily or cost-effectively acquire customers for its online travel services than we can. For example, some competitors or potential competitors with more frequent online interactions with consumers are seeking to create "super-apps" where consumers can use many online services without leaving that company's app, in particular in markets such as Asia where online activity (including e-commerce) is conducted primarily through apps on mobile devices. If any of these platforms are successful in offering services similar to ours to consumers who would otherwise use our platforms or if we are unable to offer our services to consumers within these super-apps, our customer acquisition efforts could be less effective and our customer acquisition costs, including our brand and performance marketing expenses, could increase, either of which would harm our business and results of operations.

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

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

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

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

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

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

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

Repurchases of Equity Securities

We repurchased 186,369 shares of our equity securities during the three months ended September 30, 2019.

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Programs	Maximum Shares that May Yet be Repurchased Under the Programs
July 1, 2019–July 31, 2019	72,673	$ 12.73	72,673	677,327
August 1, 2019–August 31, 2019	56,955	$ 12.15	56,955	620,372
September 1, 2019–September 30, 2019	56,741	$ 12.18	56,741	563,631
	186,369		186,369	

In May 2019, the Company announced a stock repurchase program authorizing the repurchase of up to 1,000,000 shares of the Company's outstanding common stock. During the three months ended September 30, 2019, the Company repurchased 186,369 shares of common stock and therefore there were 563,631 shares remaining to be repurchased under this program as of September 30, 2019.

Item 6. Exhibits

The following table sets forth a list of exhibits:

Exhibit Number		Description
3.1	—	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)
3.2	—	Certificate of Amendment of Certificate Incorporation of Travelzoo (File No. 000-50171), filed May 10, 2017)
3.3	—	Travelzoo's Certificate of Incorporation to Authorize a Reduction of the Authorized Number of Shares of Our Common Stock from 40,000,000 to 20,000,000 Shares
3.4	—	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).
10.1	—	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)
31.1‡	—	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2‡	—	Certification of Chief Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1†	—	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2†	—	Certification of Chief 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 Chief Accounting Officer

Date: November 1, 2019

Exhibit 31.1

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: November 1, 2019

Exhibit 31.2

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

Chief Accounting Officer

Date: November 1, 2019

Exhibit 32.1

**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 September 30, 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: November 1, 2019

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

Exhibit 32.2

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 September 30, 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: November 1, 2019	By: /s/ LISA SU
	Lisa Su
	Chief Accounting Officer