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, 2017

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
		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 26, 2017 was 12,461,553 shares.

TRAVELZOO

Table of Contents

PART I—FINANCIAL INFORMATION	Page
Item 1. Financial Statements (Unaudited)	3
Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016	3
Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2017 and 2016	4
Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2017 and 2016	5
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2017 and 2016	6
Notes to Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures About Market Risk	49
Item 4. Controls and Procedures	50
PART II—OTHER INFORMATION	
Item 1. Legal Proceedings	51
Item 1A. Risk Factors	51
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	
Item 6. Exhibits	53
Signature	54

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,822	$ 26,838
Accounts receivable, less allowance for doubtful accounts of $295 as of September 30, 2017 and December 31, 2016, respectively	11,434	14,415
Income tax receivable	1,540	542
Deferred tax assets	—	793
Deposits	396	105
Prepaid expenses and other	1,961	1,773
Total current assets	34,153	44,466
Deposits and other	508	702
Deferred tax assets	1,800	1,052
Restricted cash	1,438	1,152
Property and equipment, net	5,265	6,158
Total assets	$ 43,164	$ 53,530
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 15,966	$ 19,714
Accrued expenses and other	7,932	8,699
Deferred revenue	897	719
Income tax payable	936	691
Total current liabilities	25,731	29,823
Long-term tax liabilities	2,563	2,879
Long-term deferred rent and other	2,721	2,764
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value (40,000 shares authorized; 12,465 shares and 13,462 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively)	125	135
Additional paid in capital	—	—
Retained earnings	15,580	21,716
Accumulated other comprehensive loss	(3,556)	(3,787)
Total stockholders' equity	12,149	18,064
Total liabilities and stockholders' equity	$ 43,164	$ 53,530

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues	$ 24,687	$ 26,823	$ 79,527	$ 87,450
Cost of revenues	3,018	3,270	9,447	10,593
Gross profit	21,669	23,553	70,080	76,857
Operating expenses:				
Sales and marketing	13,973	14,075	43,542	45,060
Product development	2,315	2,230	7,016	7,019
General and administrative	5,363	5,373	16,056	16,620
Total operating expenses	21,651	21,678	66,614	68,699
Income from continuing operations	18	1,875	3,466	8,158
Other income (loss), net	86	251	111	293
Income from continuing operations before income taxes	104	2,126	3,577	8,451
Income tax expense	680	748	2,660	3,450
Income (loss) from continuing operations	$ (576)	$ 1,378	$ 917	$ 5,001
Income from discontinued operations, net of income taxes	—	241	1,938	687
Net income (loss)	$ (576)	$ 1,619	$ 2,855	$ 5,688
Income (loss) per share—basic:				
Continuing operations	$ (0.05)	$ 0.10	$ 0.07	$ 0.35
Discontinued operations	—	0.02	0.15	0.05
Net income (loss) per share—basic	$ (0.05)	$ 0.12	$ 0.22	$ 0.40
Income (loss) per share—diluted:				
Continuing operations	$ (0.05)	$ 0.10	$ 0.07	$ 0.35
Discontinued operations	—	0.02	0.15	0.05
Net income (loss) per share—diluted	$ (0.05)	$ 0.12	$ 0.22	$ 0.40
Shares used in computing basic net income (loss) per share	12,628	13,839	13,023	14,109
Shares used in computing diluted net income (loss) per share	12,628	13,867	13,040	14,119

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	$ (576)	$ 1,619	$ 2,855	$ 5,688
Other comprehensive income (loss):				
Foreign currency translation adjustment	131	(184)	231	99
Total comprehensive income (loss)	$ (445)	$ 1,435	$ 3,086	$ 5,787

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2017	**2016**
Cash flows from operating activities:		
Net income	$ 2,855	$ 5,688
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,605	1,856
Discontinued operations: gain on sale of *Fly.com* domain name	(2,890)	—
Provision for losses (gains) on accounts receivable	(34)	17
Stock-based compensation	686	692
Deferred income tax	28	(224)
Net foreign currency effect	(293)	(308)
Changes in operating assets and liabilities:		
Accounts receivable	3,388	(547)
Income tax receivable	(868)	(299)
Prepaid expenses and other	(417)	(387)
Accounts payable	(4,695)	(4,391)
Accrued expenses	(1,009)	(2,074)
Income tax payable	109	1,772
Other non-current liabilities	(349)	121
Net cash provided by (used in) operating activities	(1,884)	1,916
Cash flows from investing activities:		
Proceeds from sale of *Fly.com* domain name	2,890	—
Purchases of property and equipment	(486)	(802)
Net cash provided by (used in) investing activities	2,404	(802)
Cash flows from financing activities:		
Acquisition of the Asia Pacific business	—	58
Payment of loan to related party	—	(5,658)
Repurchase of common stock	(9,556)	(5,727)
Net cash used in financing activities	(9,556)	(11,327)
Effect of exchange rate changes on cash and cash equivalents	1,020	(76)
Net decrease in cash and cash equivalents	(8,016)	(10,289)
Cash and cash equivalents at beginning of period	26,838	35,128
Cash and cash equivalents at end of period	$ 18,822	$ 24,839
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net	$ 4,858	$ 2,198
Cash paid for interest on related party loan	$ —	$ 110

See accompanying notes to unaudited condensed consolidated financial statements.

Note 1: The Company and Basis of Presentation

Travelzoo (the "Company") is a global publisher of travel and entertainment offers. The Company informs its members in Asia Pacific, Europe and North America, as well as website users, about the best travel, entertainment and local deals available from thousands of companies. The Company's deal experts source, negotiate, research and test-book offers, recommending only those that meet Travelzoo's rigorous quality standards. The Company provides travel, entertainment, and local businesses with a fast, flexible, and cost effective way to reach consumers. The Company's revenues are generated primarily from advertising fees.

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

Ralph Bartel, who founded Travelzoo 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, 2017, Azzurro is the Company's largest stockholder, holding approximately 57.8% of the Company's outstanding shares.

During the first quarter of 2017, the Company discontinued operations of its *SuperSearch* and *Fly.com* products to focus on its global Travelzoo® brand and reflected the revenues and expenses for these products as discontinued operations, net of taxes, for the current and prior periods presented. See "Note 9: Discontinued Operations" for further information.

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, 2016, included in the Company's Form 10-K filed with the SEC on March 15, 2017.

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.

The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 or any other future period, and the Company makes no representations related thereto.

Recently Adopted Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASU") 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes," which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The Company adopted ASU 2015-17 in the first quarter of 2017 on a prospective basis. Accordingly, the Company reclassified current deferred taxes of $793,000 to noncurrent on its March 31, 2017 consolidated balance sheet. No prior periods were retrospectively adjusted.

In March, 2016, the FASB issued ASU 2016-09, "Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting," which is intended to simplify several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted ASU 2016-09 in the first quarter of 2017. The Company elected to account for forfeitures as they occur and did not have unrecognized tax benefits of stock-based compensation; therefore, the adoption of this guidance did not have a material impact on our financial position or results of operations.

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most of the existing revenue recognition guidance in U.S. GAAP when it becomes effective. This new accounting standard is effective for the Company for annual periods in fiscal years beginning after December 15, 2017 (as amended in August 2015 by ASU 2015-14, "Deferral of the Effective Date"). In December 27, 2016, FASB issued ASU 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers," which addresses loan guarantee fees, impairment testing of contract costs, provisions for losses on construction-type and production-type contracts, and various disclosures. ASU 2016-20 will go into effect once ASU 2014-09 takes effect. The Company is currently assessing the timing of revenue for its various advertising products including *Top 20*, *Newsflash*, *Local Deals* and *Getaway* vouchers and Hotel Platform commissions. Under this new guidance, the Company expects it will be required to recognize *Local Deals* and *Getaway* revenue on selected deals that is related to unredeemed vouchers based upon estimates at the time of sale of the vouchers rather than the current practice of waiting to recognize this revenue upon expiration of the legal obligation. Although the Company is still currently evaluating the impact of the adoption on its financial position, results of operations and cash flows and has not yet determined whether the effect will be material, the adoption is expected to result in additional required disclosures related to its revenue arrangements. The Company expects to adopt this standard effective January 1, 2018 with a cumulative adjustment to retained earnings using the modified retrospective method.

In February 2016, the FASB issued an accounting standard update ASU 2016-02, "Leases," which requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability on its balance sheet. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. This accounting standard update will be effective for the Company on January 1, 2019. For operating leases with terms longer than 12 months, the Company will recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. The Company is currently in the process of evaluating the impact of the adoption on its financial position, results of operations and cash flows.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which addresses eight classification issues related to the statement of cash flows. In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows: Restricted Cash," which addresses classification and presentation of changes in restricted cash on the statement of cash flows. The standard requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. Both ASU 2016-15 and ASU 2016-18 are effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017 and should apply using a retrospective transition method to each period presented. These accounting standard updates will be effective for the Company on January 1, 2018. The Company is currently in the process of evaluating the impact of the adoption on its financial position, results of operations and cash flows.

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory," which requires immediate recognition of the income tax consequences of intercompany asset transfers other than inventory. This update is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods. This accounting standard update will be effective for the Company on January 1, 2018 with early adoption 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.

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting," which gives direction on which changes to the terms or conditions of these awards require an entity to apply modification accounting in ASC Topic 718, "Compensation-Stock Compensation." The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 for all entities with early adoption 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.

Note 2: Net Income (Loss) Per Share

Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding for the period. Diluted net income (loss) 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 (loss) per share (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Numerator:				
Income (loss) from continuing operations	$ (576)	$ 1,378	$ 917	$ 5,001
Income from discontinued operations, net of income taxes	—	241	1,938	687
Net income (loss)	$ (576)	$ 1,619	$ 2,855	$ 5,688
Denominator:				
Weighted average common shares—basic	12,628	13,839	13,023	14,109
Effect of dilutive securities: stock options	—	28	17	10
Weighted average common shares—diluted	12,628	13,867	13,040	14,119
Income (loss) per share—basic:				
Continuing operations	$ (0.05)	$ 0.10	$ 0.07	$ 0.35
Discontinued operations	—	0.02	0.15	0.05
Net income (loss) per share—basic	$ (0.05)	$ 0.12	$ 0.22	$ 0.40
Income (loss) per share—diluted:				
Continuing operations	$ (0.05)	$ 0.10	$ 0.07	$ 0.35
Discontinued operations	—	0.02	0.15	0.05
Net income (loss) per share—diluted	$ (0.05)	$ 0.12	$ 0.22	$ 0.40

For the three and nine months ended September 30, 2017, options to purchase 562,500 and 162,500 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, 2016, options to purchase 200,000 shares of common stock were not included in the computation of diluted net income per share because the effect would have been anti-dilutive.

Note 3: Commitments and Contingencies

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

During 2010 through 2014, the Company became subject to unclaimed property audits of various states in the United States related to the above unexchanged promotional shares and completed settlements with all states. Although the Company has settled the unclaimed property claims with all states, the Company may still receive inquiries from certain potential Netsurfer promotional stockholders that had not provided their state of residence to the Company by April 25, 2004. Therefore, the Company is continuing its voluntary program under which it makes cash payments to individuals related to the promotional shares for individuals whose residence was unknown by the Company and who establish that they satisfy the original

conditions required for them to receive shares of Travelzoo.com Corporation, and who failed to submit requests to convert their shares into shares of Travelzoo within the required time period. This voluntary program is not available for individuals whose promotional shares have been escheated to a state by the Company, except those individuals for which their residence was unknown to the Company. The accompanying condensed consolidated financial statements include charges in general and administrative expenses of zero and $1,000 for the three and nine months ended September 30, 2016, respectively. The Company did not make any payment for the three and nine months ended September 30, 2017.

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

The Company leases office space in Australia, Canada, China, France, Germany, Hong Kong, Japan, Singapore, Spain, Taiwan, the U.K., and the U.S. under operating leases which expire between March 2017 and November 2024. The Company has purchase commitments which represent the minimum obligations the Company has under agreements with certain suppliers. These minimum obligations are less than our projected use for those periods. Payments may be more than the minimum obligations based on actual use.

The following table summarizes principal contractual commitments as of September 30, 2017 (in thousands):

	2017 Remaining	2018	2019	2020	2021	Thereafter	Total
Operating leases	$ 1,542	$ 5,240	$ 4,494	$ 3,825	$ 3,198	$ 5,626	$ 23,925
Purchase obligations	408	579	260	11	—	—	1,258
Total commitments	$ 1,950	$ 5,819	$ 4,754	$ 3,836	$ 3,198	$ 5,626	$ 25,183

Local Deals and *Getaway* merchant payables included in accounts payable were $11.0 million and $14.8 million, as of September 30, 2017 and December 31, 2016, 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, 2017 and 2016, the Company's effective tax rate was 654% and 34%, respectively. For the nine months ended September 30, 2017 and 2016, the Company's effective tax rate was 74% and 40%, respectively. The Company's effective tax rate increased for the three and nine months ended September 30, 2017 from the corresponding three and nine months ended September 30, 2016, due primarily to the change of geographic mix of income (loss) from continuing operations, including a relative increase in foreign losses not benefited, for the three and nine months ended September 30, 2017.

U.S. income and foreign withholding taxes have not been provided on undistributed earnings for certain non-U.S. subsidiaries. The undistributed earnings on a book basis for the non-U.S. subsidiaries as of September 30, 2017 are approximately $13.9 million. The Company intends to reinvest these earnings indefinitely in its operations outside the U.S. If the undistributed earnings are remitted to the U.S., these amounts would be taxable in the U.S. at the current federal and state tax rates net of foreign tax credits. Also, depending on the jurisdiction any distribution may be subject to withholding taxes at rates applicable for that jurisdiction. The estimated amount of the unrecognized deferred tax liability attributed to future dividend distributions of undistributed earnings is approximately $1.2 million at September 30, 2017.

The Company maintains liabilities for uncertain tax positions. At September 30, 2017, the Company had approximately $1.6 million 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. As of September 30, 2017 and December 31, 2016, the Company had approximately $985,000 and $951,000, respectively, in accrued interest and penalties related to uncertain tax positions. The Company is in various stages of multiple year examinations by federal taxing authorities. Although the timing of initiation, resolution and/or closure of audits is highly uncertain, it is reasonably possible that the balance of the gross unrecognized tax benefits related to the method of computing income taxes in certain jurisdictions and losses reported on certain income tax returns could significantly change in the next 12 months. These changes may occur through settlement with the taxing authorities or the expiration of the statute of limitations on the returns filed. The Company is unable to estimate the range of possible adjustments to the balance of the gross unrecognized tax benefits.

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 2008 and is subject to California tax examinations for years after 2005. The material foreign jurisdictions where the Company is subject to potential examinations by tax authorities are the France, Germany, Spain and United Kingdom for tax years after 2009. The Company's 2009 federal income tax return is currently under examination, including a review of the impact of the sale of Asia Pacific business segment in 2009. These examinations may lead to ordinary course adjustments or proposed adjustments to the Company's taxes or its net operating income. The Company has received a Revenue Agent's Report (RAR) generally issued at the conclusion of an IRS examination, which was consistent with the Notice of Proposed Adjustment the Company received earlier from the IRS for the 2009 calendar year related to the sale of our Asia Pacific business segment with additional penalties. The RAR proposes an increase to the Company's U.S. taxable income which would result in additional federal tax, federal penalty and state tax expense totaling approximately $31.0 million, excluding interest and state penalties, if any. The proposed adjustment is primarily driven by the IRS's view that the Asia Pacific business segment assets sold by the Company had a significantly higher valuation than the sales proceeds the Company received upon the sale. The Company disagrees with the proposed adjustments and intends to vigorously contest them. The Company did not make any adjustments to its liabilities for uncertain tax positions related to the RAR during the three and nine months ended September 30, 2017 because the Company does not believe the IRS's valuation of the Asia Pacific business segment assets is appropriate. If the Company is not able to resolve these proposed adjustments at the IRS examination level, it plans to pursue all available administrative and, if necessary, judicial remedies.

Note 5: Accumulated Other Comprehensive Loss

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Beginning balance	$ (3,687)	$ (3,625)	$ (3,787)	$ (3,908)
Other comprehensive income (loss) due to foreign currency translation, net of tax	131	(184)	231	99
Ending balance	$ (3,556)	$ (3,809)	$ (3,556)	$ (3,809)

There were no amounts reclassified from accumulated other comprehensive loss for the three and nine months ended September 30, 2017 and 2016.

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 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 2015, 25,000 options were canceled and 25,000 options were forfeited upon the departure of an executive. As of September 30, 2017, 50,000 options were outstanding and vested. As of September 30, 2017, there was no unrecognized stock-based compensation expense relating to these options.

In September 2015, the Company granted an executive stock options to purchase 400,000 shares of common stock with an exercise price of $8.07, of which 50,000 options became exercisable quarterly starting March 31, 2016. The options expire in September 2025. As of September 30, 2017, 400,000 options were outstanding and 350,000 of these options were vested. Total stock-based compensation for the three and nine months ended September 30, 2017, related to this option grant were $196,000 and $587,000, respectively. As of September 30, 2017, there was approximately $196,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 0.3 years.

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. During the three months ended September 30, 2017, 37,500 options were forfeited upon the departure of an executive and the compensation expense of $19,000 was reversed. As of September 30, 2017, 112,500 options were outstanding and 37,500 of these options were vested. Total stock-based compensation for the three and nine months ended September 30, 2017, related to these option grants were $11,000 and $100,000, respectively. As of September 30, 2017, there was approximately $288,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 2.4 years.

Subsequent to the quarter ended September 30, 2017, on October 30, 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.

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 January 2014, the Company announced a stock repurchase program authorizing the repurchase of up to 500,000 shares of the Company’s outstanding common stock. During the year ended December 31, 2014, the Company repurchased 261,000 shares of common stock for an aggregate purchase price of $5.9 million, which were recorded as part of treasury stock as of December 31, 2014. During the year ended December 31, 2015, the Company repurchased 212,000 shares of common stock for an aggregate purchase price of $1.7 million. The shares repurchased under this program were retired as of December 31, 2015. There were 56,000 shares remaining to be repurchased under this program as of December 31, 2015.

In February 2016, the Company announced a stock repurchase program authorizing the repurchase of up to 1,000,000 shares of the Company’s outstanding common stock. During the year ended December 31, 2016, the Company repurchased 1,056,000 shares of common stock, including the 56,000 shares from the previous stock repurchase program, for an aggregate purchase price of $9.5 million and therefore there were no shares remaining to be repurchased under the repurchase programs authorized in January 2014 and January 2016 as of December 31, 2016. The shares repurchased were retired and recorded as a reduction of additional paid-in capital until extinguished with the remaining amount reflected as a reduction of retained earnings.

In February 2017, 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, 2017, the Company repurchased 287,713 and 996,705 shares of common stock, respectively, for an aggregate purchase price of $2.6 million and $9.7 million, respectively. The shares repurchased 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. There were 3,295 shares remaining to be repurchased under this program as of September 30, 2017.

Note 8: Segment Reporting and Significant Customer Information

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

Management relies on an internal management reporting process that provides revenue and segment operating profit (loss) for making financial decisions and allocating resources. Management believes that segment revenues and operating profit (loss) are appropriate measures of evaluating the operational performance of the Company's segments. These segment disclosures have been adjusted to remove the revenue and operating profit (loss) related to discontinued operations in the current and prior periods. See "Note 9: Discontinued Operations" for further information.

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

Three Months Ended September 30, 2017	Asia Pacific	Europe	North America	Consolidated
Revenues from unaffiliated customers	$ 1,767	$ 8,008	$ 14,912	$ 24,687
Intersegment revenues	6	(62)	56	—
Total net revenues	1,773	7,946	14,968	24,687
Operating profit (loss)	$ (1,679)	$ 309	$ 1,388	$ 18

Three Months Ended September 30, 2016	Asia Pacific	Europe	North America	Consolidated
Revenues from unaffiliated customers	$ 2,521	$ 8,614	$ 15,688	$ 26,823
Intersegment revenues	36	(140)	104	—
Total net revenues	2,557	8,474	15,792	26,823
Operating profit (loss)	$ (798)	$ 1,412	$ 1,261	$ 1,875

Nine Months Ended September 30, 2017	Asia Pacific	Europe	North America	Consolidated
Revenues from unaffiliated customers	$ 5,574	$ 25,231	$ 48,722	$ 79,527
Intersegment revenues	(38)	(317)	355	—
Total net revenues	5,536	24,914	49,077	79,527
Operating profit (loss)	$ (4,385)	$ 1,526	$ 6,325	$ 3,466

Nine Months Ended September 30, 2016	Asia Pacific	Europe	North America	Consolidated
Revenues from unaffiliated customers	$ 7,173	$ 28,893	$ 51,384	$ 87,450
Intersegment revenues	78	(403)	325	—
Total net revenues	7,251	28,490	51,709	87,450
Operating profit (loss)	$ (3,080)	$ 5,022	$ 6,216	$ 8,158

As of September 30, 2017	Asia Pacific	Europe	North America	Elimination	Consolidated
Long-lived assets	$ 151	$ 577	$ 4,537	$ —	$ 5,265
Total assets	$ 3,490	$ 49,721	$ 60,473	$ (70,520)	$ 43,164

As of December 31, 2016	Asia Pacific	Europe	North America	Elimination	Consolidated
Long-lived assets	$ 209	$ 763	$ 5,186	$ —	$ 6,158
Total assets	$ 5,295	$ 49,125	$ 65,961	$ (66,851)	$ 53,530

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 ended September 30, 2017 and 2016, the Company did not have any customers that accounted for 10% or more of revenue. As of September 30, 2017, the Company did not have any customers that accounted for 10% or more of accounts receivable. As of December 31, 2016, the Company had one customer that accounted for 16% of accounts receivable.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Asia Pacific				
Travel	$ 1,644	$ 2,334	$ 5,170	$ 6,582
Local	129	223	366	669
Total Asia Pacific revenues	$ 1,773	$ 2,557	$ 5,536	$ 7,251
Europe				
Travel	$ 7,052	$ 7,357	$ 21,852	$ 24,440
Local	894	1,117	3,062	4,050
Total Europe revenues	$ 7,946	$ 8,474	$ 24,914	$ 28,490
North America				
Travel	$ 12,146	$ 12,494	$ 40,916	$ 41,490
Local	2,822	3,298	8,161	10,219
Total North America revenues	$ 14,968	$ 15,792	$ 49,077	$ 51,709
Consolidated				
Travel	$ 20,842	$ 22,185	$ 67,938	$ 72,512
Local	3,845	4,638	11,589	14,938
Total revenues	$ 24,687	$ 26,823	$ 79,527	$ 87,450

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,	
	2017	2016	2017	2016
Revenue				
United States	$ 13,658	$ 14,467	$ 45,127	$ 47,845
United Kingdom	4,483	4,994	14,136	17,518
Germany	2,881	3,042	9,047	9,436
Rest of the world	3,665	4,320	11,217	12,651
Total revenues	$ 24,687	$ 26,823	$ 79,527	$ 87,450

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

	September 30, 2017	December 31, 2016
United States	$ 4,124	$ 4,755
Rest of the world	1,141	1,403
Total long lived assets	$ 5,265	$ 6,158

Note 9: Discontinued Operations

On March 30, 2017, the Company decided to discontinue its Search products, consisting of *Fly.com* and *SuperSearch* products. This decision supports the Company's strategy to focus on its global Travelzoo® brand. On March 30, 2017, the Company ceased operations of *SuperSearch* and on March 31, 2017, the Company sold the *Fly.com* domain name, which had no net book value, to a third party. There were no other assets or liabilities transferred as part this transaction.

A reconciliation of the line items comprising the results of operations of the Search products to the income (loss) from discontinued operations through the date of disposal presented in the condensed consolidated statements of operations for the three and nine months ended September 30, 2017 and 2016, in thousands, is included in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues from Search	$ —	$ 3,617	$ 2,088	$ 11,839
Cost of revenues	—	(91)	(101)	(389)
Gross profit	—	3,526	1,987	11,450
Total operating expenses	—	(3,196)	(1,817)	(10,479)
Gain on sale of *Fly.com* domain name	—	—	2,890	—
Income from discontinued operations before income taxes	—	330	3,060	971
Income tax expense	—	89	1,122	284
Income from discontinued operations, net of income taxes	$ —	$ 241	$ 1,938	$ 687

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 (the "Company") is a global publisher of travel and entertainment offers. We inform over 28 million members in Asia Pacific, Europe and North America, as well as millions of website users, about the best travel, entertainment and local deals available from thousands of companies. Our deal experts source, negotiate, research and test-book offers, recommending only those that meet Travelzoo's rigorous quality standards. We provide travel, entertainment, and local businesses with a fast, flexible, and cost effective way to reach millions of consumers. Our revenues are generated primarily from advertising fees.

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

More than 2,000 companies use our services, including Air France, Air New Zealand, British Airways, Cathay Pacific Airways, Ctrip, Emirates, Etihad, Expedia, Fairmont Hotels and Resorts, Hawaiian Airlines, Hilton Hotels & Resorts, InterContinental Hotels Group, JPB Corporation, Lufthansa, Key Tours International, Princess Cruises, Royal Caribbean, Singapore Airlines, Starwood Hotels & Resorts Worldwide, Travelocity, United Airlines and Virgin America.

During the first quarter of 2017, the Company discontinued the operations of its *SuperSearch* and *Fly.com* products to focus on its global Travelzoo® brand and reflected the revenues and expenses for these products as discontinued operations, net of taxes, for the current and prior periods presented. See "Note 9: Discontinued Operations" to the accompanying unaudited condensed consolidated financial statement for further information.

We have three operating segments based on geographic regions: Asia Pacific, Europe and North America. Asia Pacific consists of our operations in Australia, China, Hong Kong, Japan, Taiwan, and Southeast Asia. Europe consists of our operations in France, Germany, Spain, and the U.K. North America consists of our operations in Canada and the U.S.

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

How We Generate Revenues

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

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

Our Local category of revenue includes the publishing revenue for negotiated high-quality deals from local businesses, such as restaurants, spas, shows, and other activities and includes *Local Deals* vouchers and entertainment offers (vouchers and direct bookings). The revenues generated from these products are based upon a percentage of the face value of vouchers or items sold or a fee for clicks delivered to the advertisers. We recognize revenue upon the sale of the vouchers, when we receive notification of the direct bookings or upon delivery of the clicks. The Company earns a fee for acting as an agent in these transactions, which is recorded on a net basis and is included in revenue upon completion of the voucher sale. Certain merchant contracts in foreign locations allow us to retain fees related to vouchers sold that are not redeemed by purchasers upon expiration, which we recognize as revenue after the expiration of the redemption period and after there are no further obligations to provide funds to merchants, members or others.

Trends in Our Business

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

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

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

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

Our ability to continue to generate advertising revenue depends heavily upon our ability to maintain and grow an attractive audience for our publications. We monitor our members to assess our efforts to maintain and grow our audience reach. We obtain additional members and activity on our websites by acquiring traffic from Internet search companies. The costs to grow our audience have had, and we expect will to 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 amount of advertisers willing to advertise with us and, therefore, decrease our revenue. We may need to decrease our rates based on competitive market conditions and the performance of our audience in order to maintain or grow our revenue.

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

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

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

We do not know what our general and administrative expenses as a percentage of revenue will be in future periods. There may be fluctuations that have a material impact on our results of operations. We expect our headcount to continue to increase in the future. The Company's headcount is one of the main drivers of general and administrative expenses. Therefore, we expect our absolute general and administrative expenses to continue to increase. We expect our continued expansion into foreign markets to result in an increase in our general and administrative expenses. Our general and administrative expenses as a percentage of revenue may also fluctuate depending on the number of requests received related to a program under which the Company intends to make cash payments to people who establish that they were former stockholders of Travelzoo.com Corporation, whose claims were not escheated to states and who failed to submit requests to convert shares into Travelzoo within the required time period. We expect an increase in professional fees for various initiatives.

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

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

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,	
	2017	2016	2017	2016
Revenues	100.0 %	100.0%	100.0%	100.0%
Cost of revenues	12.2	12.2	11.9	12.1
Gross profit	87.8	87.8	88.1	87.9
Operating expenses:				
Sales and marketing	56.6	52.5	54.7	51.5
Product development	9.4	8.3	8.8	8.0
General and administrative	21.7	20.0	20.2	19.0
Total operating expenses	87.7	80.8	83.7	78.5
Income from continuing operations	0.1	7.0	4.4	9.4
Other income (loss), net	0.3	0.9	0.1	0.2
Income from continuing operations before income taxes	0.4	7.9	4.5	9.6
Income tax expense	2.7	2.8	3.3	3.9
Income (loss) from continuing operations	(2.3)	5.1	1.2	5.7
Income from discontinued operations, net of income taxes	—	0.9	2.4	0.8
Net income (loss)	(2.3)%	6.0%	3.6%	6.5%

Operating Metrics

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

	Three Months Ended September 30,	
	2017	2016
Asia Pacific		
Total members (1)	3,622,000	3,603,000
Average cost per acquisition of a new member	$ 2.71	$ 2.98
Revenue per member (2)	$ 2.05	$ 2.77
Revenue per employee (3)	$ 80,600	$ 116,000
Mobile application downloads	682,000	635,000
Social media followers	538,000	483,000
Europe		
Total members (1)	8,528,000	8,203,000
Average cost per acquisition of a new member	$ 2.28	$ 2.31
Revenue per member (2)	$ 4.07	$ 4.83
Revenue per employee (3)	$ 212,000	$ 227,000
Mobile application downloads	1,630,000	1,567,000
Social media followers	675,000	637,000
North America		
Total members (1)	17,436,000	17,391,000
Average cost per acquisition of a new member	$ 1.85	$ 2.10
Revenue per member (2)	$ 3.80	$ 4.01
Revenue per employee (3)	$ 302,000	$ 310,000
Mobile application downloads	3,105,000	2,986,000
Social media followers	2,507,000	2,507,000
Consolidated		
Total members (1)	29,452,000	29,059,000
Average cost per acquisition of a new member	$ 2.08	$ 2.25
Revenue per member (2)	$ 3.68	$ 4.11
Revenue per employee (3)	$ 226,000	$ 243,000
Mobile application downloads	5,417,000	5,188,000
Social media followers	3,720,000	3,627,000

(1) Members represent individuals who are signed up to receive one or more of our free email publications that present our travel, entertainment and local deals.

(2) Annualized revenue divided by number of members at the beginning of the year.

(3) Annualized revenue divided by number of employees at the end of the quarter.

Revenues

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Asia Pacific				
Travel	$ 1,644	$ 2,334	$ 5,170	$ 6,582
Local	129	223	366	669
Total Asia Pacific revenues	$ 1,773	$ 2,557	$ 5,536	$ 7,251
Europe				
Travel	$ 7,052	$ 7,357	$ 21,852	$ 24,440
Local	894	1,117	3,062	4,050
Total Europe revenues	$ 7,946	$ 8,474	$ 24,914	$ 28,490
North America				
Travel	$ 12,146	$ 12,494	$ 40,916	$ 41,490
Local	2,822	3,298	8,161	10,219
Total North America revenues	$ 14,968	$ 15,792	$ 49,077	$ 51,709
Consolidated				
Travel	$ 20,842	$ 22,185	$ 67,938	$ 72,512
Local	3,845	4,638	11,589	14,938
Total revenues	$ 24,687	$ 26,823	$ 79,527	$ 87,450

Asia Pacific

Asia Pacific revenues decreased $784,000 for the three months ended September 30, 2017 from the three months ended September 30, 2016. The decrease was primarily due to a $673,000 decrease in Travel revenues, a $83,000 decrease in Local revenues and a $28,000 negative impact from foreign currency movements relative to the U.S. dollar. The decrease in Travel revenue of $673,000 was primarily due to the decreased number of emails sent and paid clicks. The decrease in Local revenues of $83,000 was primarily due to the decreased number of *Local Deals* vouchers sold.

Asia Pacific revenues decreased $1.7 million for the nine months ended September 30, 2017 from the nine months ended September 30, 2016. The decrease was primarily due to a $1.3 million decrease in Travel revenues, a $273,000 decrease in Local revenues, and a $135,000 negative impact from foreign currency movements relative to the U.S. dollar. The decrease in Travel revenue of $1.3 million was primarily due to the decreased number of emails sent and paid clicks. The decrease in Local revenues of $273,000 was primarily due to the decreased number of *Local Deals* vouchers sold.

Europe

Europe revenues decreased $528,000 for the three months ended September 30, 2017 from the three months ended September 30, 2016. This decrease was primarily due to a $479,000 decrease in Travel revenues, a $232,000 decrease in Local revenues and a $183,000 positive impact from foreign currency movements relative to the U.S. dollar. The decrease in Travel revenue of $479,000 was primarily due to an decreased number of emails sent. The decrease in Local revenues of $232,000 was primarily due to the decreased number of *Local Deals* vouchers sold.

Europe revenues decreased $3.6 million for the nine months ended September 30, 2017 from the nine months ended September 30, 2016. This decrease was primarily due to a $1.4 million decrease in Travel revenues and a $752,000 decrease in Local revenues and a $1.4 million negative impact from foreign currency movements relative to the U.S. dollar. The decrease in Travel revenue of $1.4 million was primarily due to the decreased number of emails sent and the decreased number of *Getaway* vouchers sold. The decrease in Local revenues of $752,000 was primarily due to the decreased number of *Local Deals* vouchers sold.

North America

North America revenues decreased $824,000 for the three months ended September 30, 2017 from the three months ended September 30, 2016. This decrease was primarily due to a $348.000 decrease in Travel revenues and a $476,000 decrease in Local revenues. The decrease in Travel revenue of $348,000 was primarily due to the decreased number of emails sent and the decreased number of *Getaway* vouchers sold. The decrease in Local revenues of $476,000 was primarily due to the decreased number of *Local Deals* vouchers sold.

North America revenues decreased $2.6 million for the nine months ended September 30, 2017 from the nine months ended September 30, 2016. This decrease was primarily due to the decrease in Travel and Local revenues. The decrease in Travel revenue of $575,000 was primarily due to the decreased number of *Getaway* vouchers sold and paid clicks, offset partially by the increased number of emails sent. The decrease in Local revenues of $2.1 million was primarily due to the decreased number of *Local Deals* vouchers sold.

For the three and nine months ended September 30, 2017 and 2016, 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 and $3.3 million for the three months ended September 30, 2017 and September 30, 2016, respectively. Cost of revenues was $9.4 million and $10.6 million for the nine months ended September 30, 2017 and September 30, 2016, respectively.

Cost of revenue decreased $252,000 for the three months ended September 30, 2017 from the three months ended September 30, 2016. This decrease was primarily due to a $108,000 decrease in credit card fees paid related to vouchers and a $68,000 decrease in network expense.

Cost of revenue decreased $1.1 million for the nine months ended September 30, 2017 from the nine months ended September 30, 2016. This decrease was primarily due to a $563,000 decrease in payments made to third-party partners of the Travelzoo Network and a $340,000 decrease in credit card fees paid related to vouchers.

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 $14.0 million and $14.1 million for the three months ended September 30, 2017 and 2016, respectively. Sales and marketing expenses were $43.5 million and $45.1 million for the nine months ended September 30, 2017 and 2016, 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, 2017 and 2016, advertising expenses accounted for 17% and 16% of the total sales and marketing expenses, respectively. For the nine months ended September 30, 2017 and 2016, advertising expenses accounted for 14% and 19% of the total sales and marketing expenses, respectively. The goal of our advertising was to acquire new members to our e-mail products, increase the traffic to our websites, increase brand awareness and increase our audience through mobile and social media channels.

Sales and marketing expenses decreased $102,000 for the three months ended September 30, 2017 from the three months ended September 30, 2016 primarily due to the decrease in member acquisition costs.

Sales and marketing expenses decreased $1.5 million for the nine months ended September 30, 2017 from the nine months ended September 30, 2016. The decrease was primarily due to a $1.3 million decrease in member acquisition costs and a $299,000 decrease in brand marketing costs.

Product Development

Product development expenses consist primarily of compensation for software development staff, fees for professional services, software maintenance and amortization, and facilities costs. Product development expenses were $2.3 million and $2.2 million for the three months ended September 30, 2017 and 2016, respectively. Product development expenses were $7.0 million for each of the nine months ended September 30, 2017 and 2016.

Product development expenses increased $85,000 for three months ended September 30, 2017 from the three months ended September 30, 2016 primarily due to additional professional service expenses.

Product development expenses were consistent for nine months ended September 30, 2017 and the nine months ended September 30, 2016.

General and Administrative

General and administrative expenses consist primarily of compensation for administrative, executive, bad debt expense, amortization of intangible assets, general office expense and facilities costs. General and administrative expenses were $5.4 million for each of the three months ended September 30, 2017 and 2016. General and administrative expenses were $16.1 million and $16.6 million for the nine months ended September 30, 2017 and 2016, respectively.

General and administrative expenses were consistent for the three months ended September 30, 2017 and the three months ended September 30, 2016. The decrease of $282,000 in professional service expenses was offset by the increase of $268,00 in salary and employee related expenses.

General and administrative expenses decreased $564,000 for the nine months ended September 30, 2017 from the nine months ended September 30, 2016. The decrease was primarily due to $559,000 decrease in professional service expenses.

Income Taxes

Our income is generally taxed in the U.S., Canada, and U.K. Our income tax provisions reflect federal, state and country statutory rates applicable to our levels of worldwide income, adjusted to take into account expenses that are treated as having no recognizable tax benefit. Income tax expense was $680,000 and $748,000 for the three months ended September 30, 2017 and 2016, respectively. Our effective tax rate was 654% and 34% for the three months ended September 30, 2017 and 2016, respectively. Income tax expense was $2.7 million and $3.45 million for the nine months ended September 30, 2017 and 2016, respectively. Our effective tax rate was 74.0% and 40.0% for the nine months ended September 30, 2017 and 2016, respectively.

Our effective tax rate increased for the three and nine months ended September 30, 2017 from the three and nine months ended September 30, 2016, due primarily to the change of geographic mix of income (loss) from continuing operations, including a relative increase in foreign losses not benefited, for the three and nine months ended September 30, 2017. We expect our effective tax rate to fluctuate in future periods depending on the geographic mix of our worldwide income or losses incurred by our operations in Asia Pacific, Canada and Europe, statutory tax rate changes that may occur, existing or new uncertain tax matters that may arise and require changes in tax reserves, the use of accumulated losses to offset current taxable income in Asia Pacific and the need for valuation allowances on certain tax assets, if any.

U.S. income and foreign withholding taxes have not been provided on undistributed earnings for certain non-U.S. subsidiaries. The undistributed earnings on a book basis for those non-U.S. subsidiaries are approximately $13.9 million. The Company intends to reinvest these earnings indefinitely in its operations outside the U.S. If the undistributed earnings are remitted to the U.S., these amounts would be taxable in the U.S. at the current federal and state tax rates net of foreign tax credits. Also, depending on the jurisdiction any distribution may be subject to withholding taxes at rates applicable for that jurisdiction.

We file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. We are subject to U.S. federal and certain state tax examinations for years after 2008 and are subject to California tax examinations for years after 2005. These examinations may lead to ordinary course adjustments or proposed adjustments to our taxes or our net operating income. Our 2009 federal income tax returns are currently under examination, including a review of the impact of the sale of Asia Pacific business segment in 2009. In connection with this examination, the Company received a Revenue Agent's Report (RAR) from the IRS, generally issued at the conclusion of an IRS examination. The RAR proposes an increase to our U.S. taxable income, which would result in additional federal tax, federal penalty and state tax expense totaling approximately $31.0 million, excluding interest and state penalties, if any. See Note 4 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,	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
Revenue	$ 1,773	$ 2,557	$ 5,536	$ 7,251
Operating loss	$ (1,679)	$ (798)	$ (4,385)	$ (3,080)
Operating loss as a % of revenue	(94.7)%	(31.2)%	(79.2)%	(42.5)%

Asia Pacific revenues decreased $784,000 for the three months ended September 30, 2017 from the three months ended September 30, 2016 (see "Revenues" above). Asia Pacific expenses increased $97,000 for the three months ended September 30, 2017 from the three months ended September 30, 2016. This increase was primarily due to a $220,000 product development expenses offset partially by a $145,000 decrease in member acquisition and brand marketing costs.

Asia Pacific revenues decreased $1.7 million for the nine months ended September 30, 2017 from the nine months ended September 30, 2016 (see "Revenues" above). Asia Pacific expenses decreased $410,000 for the nine months ended September 30, 2017 from the nine months ended September 30, 2016. This decrease was primarily due to a $360,000 decrease in member acquisition costs.

Foreign currency movements relative to the U.S. dollar positively impacted our local currency loss from our operations in Asia Pacific by approximately $20,000 for the three months ended September 30, 2017. Foreign currency movements relative to the U.S. dollar positively impacted our loss from our operations in Asia Pacific by approximately $60,000 for the three months ended September 30, 2016.

Foreign currency movements relative to the U.S. dollar positively impacted our local currency loss from our operations in Asia Pacific by approximately $55,000 for the nine months ended September 30, 2017. Foreign currency movements relative to the U.S. dollar positively impacted our loss from our operations in Asia Pacific by approximately $157,000 for the nine months ended September 30, 2016.

Europe

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
Revenue	$ 7,946	$ 8,474	$ 24,914	$ 28,490
Operating profit	$ 309	$ 1,412	$ 1,526	$ 5,022
Operating profit as a % of revenue	3.9%	16.7%	6.1%	17.6%

Europe revenues decreased $528,000 for the three months ended September 30, 2017 from the three months ended September 30, 2016 (see "Revenues" above). Europe expenses increased $575,000 for the three months ended September 30, 2017 from the three months ended September 30, 2016. This increase was primarily due to a $278,000 increase in product development expenses and a $218,000 increase in salary and employee related expense.

Europe revenues decreased $3.6 million for the nine months ended September 30, 2017 from the nine months ended September 30, 2016 (see "Revenues" above). Europe expenses decreased $80,000 for the nine months ended September 30, 2017 from the nine months ended September 30, 2016 primarily due to decrease in salary and employee related expense.

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, 2017. Foreign currency movements relative to the U.S. dollar negatively impacted our income from our operations in Europe by approximately $122,000 for the three months ended September 30, 2016.

Foreign currency movements relative to the U.S. dollar negatively impacted our local currency income from our operations in Europe by approximately $148,000 for the nine months ended September 30, 2017. Foreign currency movements

relative to the U.S. dollar negatively impacted our income from our operations in Europe by approximately $379,000 for the nine months ended September 30, 2016.

North America

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
Revenue	$ 14,968	$ 15,792	$ 49,077	$ 51,709
Operating profit	$ 1,388	$ 1,261	$ 6,325	$ 6,216
Operating profit as a % of revenue	9.3%	8.0%	12.9%	12.0%

North America revenues decreased $824,000 for the three months ended September 30, 2017 from the three months ended September 30, 2016 (see "Revenues" above). North America expenses decreased $951,000 for the three months ended September 30, 2017 from the three months ended September 30, 2016. This decrease was primarily due to a $448,000 decrease in product development expenses and a $423,000 decrease in professional service expenses.

North America revenues decreased $2.6 million for the nine months ended September 30, 2017 from the nine months ended September 30, 2016 (see "Revenues" above). North America expenses decreased $2.7 million for the nine months ended September 30, 2017 from the nine months ended September 30, 2016. This decrease was primarily due to a $987,000 decrease in professional service expenses, $683,000 decrease in salary and employee related expense and a $961,000 decrease in member acquisition costs.

Liquidity and Capital Resources

As of September 30, 2017, we had $18.8 million in cash and cash equivalents, of which $11.4 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 $26.8 million as of December 31, 2016 primarily as a result of cash used in financing activities and operating activities, offset by cash provided by investing activities as explained below. 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,	
	2017	2016
	(In thousands)	
Net cash provided by (used in) operating activities	$ (1,884)	$ 1,916
Net cash provided by (used in) investing activities	2,404	(802)
Net cash used in financing activities	(9,556)	(11,327)
Effect of exchange rate changes on cash and cash equivalents	1,020	(76)
Net decrease in cash and cash equivalents	$ (8,016)	$ (10,289)

Net cash used in operating activities is net income adjusted for certain non-cash items and changes in assets and liabilities. Net cash used in operating activities for the nine months ended September 30, 2017 was $1.9 million, which consisted of net income of $2.9 million, adjustments for non-cash items of $898,000 and a $3.8 million decrease in cash from changes in operating assets and liabilities. Adjustments for non-cash items primarily consisted of the $2.9 million discontinued operations gain on the sale of the *Fly.com* domain name, offset by $1.6 million of depreciation and amortization expense on property and equipment. In addition, the decrease in cash from changes in operating assets and liabilities primarily consisted of $4.7 million decrease in accounts payable, offset by $3.4 million decrease in accounts receivable.

Net cash provided by operating activities for the nine months ended September 30, 2016 was $1.9 million which consisted of a net income of $5.7 million, adjustments for non-cash items of $2.0 million and a $5.8 million decrease in cash from changes in operating assets and liabilities. Adjustments for non-cash items primarily consisted of $1.9 million of depreciation and amortization expense on property and equipment, $224,000 of deferred taxes and $692,000 of stock-based compensation expense. In addition, the decrease in cash from changes in operating assets and liabilities primarily consisted of $4.4 million in accounts payable, $2.1 million in accrued expenses and other, offset by $1.5 million in income tax receivable and payable.

Cash paid for income, tax net of refunds received, during the nine months ended September 30, 2017 and 2016 was $4.9 million and $2.2 million, respectively.

Net cash provided by investing activities for the nine months ended September 30, 2017 and 2016 was $2.4 million and $802,000, respectively. The cash provided by investing activities for the nine months ended September 30, 2017 was primarily due to $2.9 million proceeds from sale the *Fly.com* domain name, offset partially by $486,000 in purchases of property and equipment. The cash used in investing activities for the nine months ended September 30, 2016 was primarily due to $802,000 in purchases of property and equipment.

Net cash used in financing activities for the nine months ended September 30, 2017 and September 30, 2016 was $9.6 million and $11.3 million, respectively. Net cash used in financing activities for the nine months ended September 30, 2017 was primarily due to $9.6 million cash used in repurchases of our common stock. Net cash used in financing activities for the nine months ended September 30, 2016 was primarily due to $5.7 million payment of related party loan and $5.7 million cash used in 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 Netsurfer promotional stockholders that had not provided their state of residence to us by April 25, 2004. Therefore, we are continuing our voluntary program under which it makes cash payments to individuals related to the promotional shares for individuals whose residence was unknown by us and who establish that they satisfied the conditions to receive shares of Travelzoo.com Corporation, and who failed to submit requests to convert their shares into shares of Travelzoo within the required time period. This voluntary program is not available for individuals whose promotional shares have been escheated to a state by us.

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

The following summarizes our principal contractual commitments as of September 30, 2017 (in thousands):

	2017 Remaining	2018	2019	2020	2021	Thereafter	Total
Operating leases	$ 1,542	$ 5,240	$ 4,494	$ 3,825	$ 3,198	$ 5,626	$ 23,925
Purchase obligations	408	579	260	11	—	—	1,258
Total commitments	$ 1,950	$ 5,819	$ 4,754	$ 3,836	$ 3,198	$ 5,626	$ 25,183

We also have contingencies related to net unrecognized tax benefits, including interest, of approximately $2.6 million as of September 30, 2017. In addition, the Company received a Revenue Agents' Report from the IRS for the 2009 calendar year related to the sale of our Asia Pacific business segment, which would result in additional federal and state tax expense totaling approximately $31.0 million, excluding interest and penalties, if any. We are unable to make reasonably reliable estimates on the timing of the cash settlements with the respective taxing authorities, if any. See Note 4 to the accompanying unaudited condensed consolidated financial statements for further information.

Critical Accounting Policies and Estimates

We believe that there are a number of accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management's judgments and estimates. These significant accounting policies relate to revenue recognition, reserve for refunds to members, allowance for doubtful accounts, income taxes and loss contingencies. These policies, and our procedures related to these policies, are described in detail below.

Revenue Recognition

We recognize advertising revenues in the period in which the advertisement is displayed or the voucher sale has been completed, provided that evidence of an arrangement exists, the fees are fixed or determinable and collection of the resulting receivable is reasonably assured. If fixed-fee advertising is displayed over a term greater than one month, revenues are recognized ratably over the period as described below. The majority of insertion orders have terms that begin and end in a quarterly reporting period. In the cases where at the end of a quarterly reporting period the term of an insertion order is not complete, the Company allocates the total arrangement fee to each element based on the relative estimated selling price of each element. The Company uses prices stated on its internal rate card, which represents stand-alone sales prices, to establish estimated selling prices. The stand-alone price is the price that would be charged if the advertiser purchased only the individual insertion. Fees for variable-fee advertising arrangements are recognized based on the number of impressions displayed, number of clicks delivered, or number of referrals generated during the period.

Under these policies, the Company evaluates each of these criteria as follows:

- *Evidence of an arrangement.* We consider an insertion order signed by the advertiser or its agency to be evidence of an arrangement.
- *Delivery.* Delivery is considered to occur when the advertising has been displayed, the click-throughs have been delivered, the voucher sale has been completed, cancelable hotel booking reservation stays have occurred or non-cancelable hotel booking reservations have been booked, as applicable.
- *Fixed or determinable fee.* Our arrangements with our customers specifies the price paid for advertising services.
- *Collection is deemed reasonably assured.* We conduct a credit review for all advertising transactions at the time of the arrangement to determine the creditworthiness of the advertiser. Collection is deemed reasonably assured if we expect that the advertiser will be able to pay amounts under the arrangement as payments become due. Collection is deemed not reasonably assured when an advertiser is perceived to be in financial distress, which may be evidenced by weak industry conditions, a bankruptcy filing, or previously billed amounts that are past due. If we determine that collection is not reasonably assured, then we defer the revenue and recognize the revenue upon cash collection. Collection is deemed reasonably assured for our voucher sales to consumers as these transactions require the use of credit cards subject to authorization.

Revenues from advertising sold to advertisers through agencies are reported at the amount billed to the agency.

For *Local Deals* and *Getaway* products, the Company earns a fee for acting as an agent in these transactions which is recorded on a net basis and is included in revenue upon completion of the voucher sale. Certain merchant contracts in foreign locations allow us to retain fees related to vouchers sold that are not redeemed by purchasers upon expiration, which we recognize as revenue after the expiration of the redemption period and after there are no further obligations to provide funds to merchants, members or others.

Commission revenues generated through provision of hotel booking reservations to hotels are recognized upon the estimated date the stay occurs at the hotel, which includes estimates of cancellations of the hotel bookings based upon historical patterns. If the hotel booking cannot be canceled or the hotel advertiser has agreed to pay for booking regardless of potential future cancellations then revenue is recognized upon booking.

Reserve for Refunds to Members

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

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

Allowance for Doubtful Accounts

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

Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the progress or closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest.

Our effective tax rates have differed from the statutory rate primarily due to the tax impact of foreign operations, state taxes, certain benefits realized related to stock option activities, credits, and the extent that our earnings are indefinitely reinvested outside the U.S. and tax asset valuation allowance determinations including on certain loss carryforwards. For the nine months ended September 30, 2017 and 2016, our effective tax rates were 74% and 40%, respectively. Our future effective tax rates could be materially impacted by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, changes in the deferred tax assets or liabilities, existing or new uncertain tax matters that may arise and require changes in tax reserves, changes in tax asset valuation allowance determinations, changes in our judgment about whether certain foreign earnings are indefinitely reinvested outside the U.S., or changes in tax laws, regulations, and accounting principles. In addition, we are subject to the continuous examination of our income tax returns by the IRS and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. See Note 4 to the accompanying unaudited condensed consolidated financial statements for further information.

Loss Contingencies

We are involved in claims, suits, and proceedings arising from the ordinary course of our business. We record a provision for a liability when we believe that it is both probable that a liability has been incurred, and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. Such claim proceedings are inherently unpredictable and subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material impact on our results of operations, financial position and cash flows. See "Note 3: Commitments and Contingencies" to the accompanying unaudited condensed consolidated financial statements for further information regarding our loss contingencies.

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 consolidated financial statements.

RISK FACTORS

Investing in our common stock involves a high degree of risk. Any or all of the risks listed below as well as other variables affecting our operating results could have a material adverse effect on our business, our quarterly and annual operating results or financial condition, which could cause the market price of our stock to decline or cause substantial volatility in our stock price, in which event the value of your common stock could decline. You should also keep these risk factors in mind when you read forward-looking statements.

Risks Related to Our Financial Condition and Business Model

We cannot assure you that we will be profitable.

During the nine months ended September 30, 2017 and September 30, 2016, we generated a net income of $2.9 million and $5.7 million, respectively. During the year ended December 31, 2016, we generated net income of $6.6 million. Although we were profitable in 2016 and the nine months ended September 30, 2017, there is no assurance that we will be profitable in the future. We forecast our future expense levels based on our operating plans and our estimates of future revenues. We may find it necessary to significantly accelerate expenditures relating to our sales and marketing efforts or otherwise increase our financial commitment to creating and maintaining brand awareness among Internet users and advertisers. We may also expand and upgrade our technology and make investments in our products as well as develop new products that may impact our profitability. If our revenues grow at a slower rate than we anticipate or decline, or if our spending levels exceed our expectations or cannot be adjusted to reflect slower revenue growth, we may not generate sufficient revenues to be profitable. Any of these developments could result in a significant decrease in the trading price of our common stock.

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

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

- mismatches between resource allocation and client demand due to difficulties in predicting client demand in a new market;
- changes in general economic conditions that could affect marketing efforts generally and online marketing efforts in particular;
- the magnitude and timing of marketing initiatives, including our acquisition of new members and our expansion efforts in other regions;
- the introduction, development, timing, competitive pricing and market acceptance of our products and services and those of our competitors;
- our ability to attract and retain key personnel;
- our ability to manage our planned growth;
- our ability to attract users to our websites, which may be adversely affected by the audience shift to mobile devices;
- technical difficulties or system downtime affecting the Internet generally or the operation of our products and services specifically; and
- volatility of our operating results in new markets.

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

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

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

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

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

Our *Local Deals* and *Getaway* formats of advertising include the sale of vouchers directly to consumers to advertise promotional deals provided by merchants.

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

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

We utilize Internet search engines such as Google, principally through the purchase of travel-related keywords, to generate additional traffic to our websites. Search engines, including Google, frequently update and change the logic that determines the placement and display of results of a user's search, such that the purchased or algorithmic placement of links to our websites can be negatively affected. In addition, a significant amount of traffic is directed to our websites through our participation in pay-per-click and display advertising campaigns on search engines, including Google, travel metasearch engines, including Kayak, and Internet media properties, including TripAdvisor. Pricing and operating dynamics for these traffic sources can experience rapid change, both technically and competitively. Moreover, a search or metasearch engine could, for competitive or other purposes, alter its search algorithms or results causing a website to place lower in search query results. If a major search engine changes its algorithms or results in a manner that negatively affects the search engine ranking, paid or unpaid, of our websites or that of our third-party distribution partners, or if competitive dynamics impact the costs or effectiveness of search engine optimization, search engine marketing or other traffic-generating arrangements in a negative manner, our business and financial performance would be adversely affected, potentially to a material extent.

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

Widespread adoption of mobile devices, such as the iPhone, Android-enabled smart phones, and tablets such as the iPad, coupled with the improved web browsing functionality and development of thousands of useful “apps” available on these devices, is driving substantial traffic and commerce activity to mobile platforms. We have experienced a significant shift of business to mobile platforms and our advertising partners are also seeing a rapid shift of traffic to mobile platforms. Our major competitors and certain new market entrants are offering mobile applications for travel products and other functionality, including proprietary last-minute discounts for hotel bookings. Advertising and distribution opportunities may be more limited on mobile devices given their smaller screen sizes. The gross profit earned on a mobile transaction may be less than that earned from a typical desktop transaction due to different consumer purchasing patterns. For example, hotel reservations made on a mobile device typically are for shorter lengths of stay and are not made as far in advance as hotel reservations made on a desktop. Further, given the device sizes and technical limitations of tablets and smartphones, mobile consumers may not be willing to download multiple applications from multiple travel service providers and instead prefer to use one or a limited number of applications for their mobile travel activity. As a result, the consumer experience with mobile applications, as well as brand recognition and loyalty, are likely to become increasingly important. We have made progress creating mobile offerings which have received strong reviews and have shown solid download trends. We believe that mobile bookings present an opportunity for growth. Further development of our mobile offerings is necessary to maintain and grow our business as consumers increasingly turn to mobile devices instead of a personal computer and to mobile applications instead of a web browser. Further, many consumers use a mobile device based web browser instead of an application. As a result, it is increasingly important for us to develop and maintain effective mobile websites optimized for mobile devices to provide customers with appealing easy-to-use mobile website functionality. If we are unable to continue to rapidly innovate and create new, user-friendly and differentiated mobile offerings and efficiently and effectively advertise and distribute on these platforms, or if our mobile applications are not downloaded and used by travel consumers, we could lose market share to existing competitors or new entrants and our future growth and results of operations could be adversely affected.

We may have exposure to additional tax liabilities.

As a global company, we are subject to income taxes as well as non-income based tax, in both the U.S. and various foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities. Although we believe that our tax estimates are reasonable, there is no assurance that the final determination of tax audits or tax disputes will not be different from what is reflected in our historical income tax provisions and accruals. Changes in tax laws or tax rulings may have a significantly adverse impact on our effective tax rate. We are also subject to non-income based taxes, such as value-added, payroll, sales, use, net worth, property and goods and services taxes, in both the U.S. and various foreign jurisdictions.

From time to time, the Company is under audit by tax authorities with respect to these non-income based taxes and may have exposure to additional non-income based tax liabilities. These examinations may lead to ordinary course adjustments or proposed adjustments to its taxes or its net operating income. The Company's 2009 federal income tax returns are currently under examination, including a review of the impact of the sale of Asia Pacific business segment in 2009. In connection with this examination, the Company has received a Revenue Agent’s Report (RAR) generally issued at the conclusion of an IRS examination, which was consistent with the Notice of Proposed Adjustment the Company received earlier from the IRS for the 2009 calendar year related to the sale of our Asia Pacific business segment with the addition of penalties. The RAR proposes an increase to our U.S. taxable income which would result in additional federal tax expense, federal penalty and state tax expense totaling approximately $31 million, excluding interest and state penalties, if any. The proposed adjustment is primarily driven by IRS’s view that the Asia Pacific business segment assets sold by the Company had a significantly higher valuation than the sales proceeds the Company received upon the sale. The Company disagrees with the proposed adjustments and intends to vigorously contest them. The Company did not make any adjustments to its liabilities for uncertain tax positions related to the RAR as of September 30, 2017 because the Company does not believe the IRS’s valuation of Asia Pacific business segment assets is appropriate. If the Company is not able to resolve these proposed adjustments at the IRS examination level, the Company plans to pursue all available administrative and, if necessary, judicial remedies. The Company is not able to predict the ultimate amount or outcome of this tax audit and we may incur additional costs in defending any claims that may arise, even if we ultimately are not liable for any additional taxes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our business depends on our reputation for providing high-quality deals, and our brand and reputation may be harmed by actions taken by advertisers or merchants that are outside our control. For our *Local Deals* and *Getaway* merchants, since we are selling vouchers on behalf of the merchants directly to our members, we face exposures should merchants not fully honor the deals. As for our travel business, we are only collecting an advertising fee from the advertiser and the members are booking the deal directly with the advertiser. Although the advertiser is responsible to the consumer to provide the consumer the deal it advertised, our business can be adversely affected should an advertiser fail to comply with the terms of the advertised deal. Any shortcomings of one or more of our merchants, particularly with respect to an issue affecting the quality of the deal offered or the products or services sold, may be attributed by our members to us, thus damaging our reputation and brand value and potentially affecting our results of operations. In addition, negative publicity and member sentiment generated as a result of fraudulent or deceptive conduct by our merchants could damage our reputation, reduce our ability to attract new members or retain our current members, and diminish the value of our brand.

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

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

Changes to our technology and user interface 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 interface 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. In October 2016, we recently launched our fully responsive website that adjusts to different screen sizes and allows our members to more readily search our deals, which we believe will improve the user experience on our site; however, this may lead to unforeseen issues that could adversely affect our revenue and business. In addition, as the Company previously disclosed, the Company discontinued its *SuperSearch* product in order to simplify the overall search experience, and this could result in further loss of revenues. The discontinuance of *SuperSearch* supports the Company's strategy to focus on its global Travelzoo brand.

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

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

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

For the nine months ended September 30, 2017, our cash and cash equivalents decreased by $8.0 million to $18.8 million, of which $11.4 million was held outside the U.S. in certain of our foreign operations. We intend to continue to grow our business and fund our current operations using cash on hand. However, this may not be sufficient to meet our needs, including the payments required to settle various commitments and contingencies, as described under Notes 3 and 4 to the accompanying unaudited condensed consolidated financial statements. We may not be able to obtain financing on commercially reasonable terms, or at all.

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

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

Our business may be sensitive to recessions.

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

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

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

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

We are vulnerable to coordinated attempts to overload our systems with data, which could result in denial or reduction of service to some or all of our users for a period of time. We have experienced denial of service attacks in the past, and may experience such attempts in the future. Any such event could reduce our revenue and 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.

We are subject to payments-related risks.

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

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

United States generally accepted accounting principles are subject to interpretation by the FASB, the American Institute of Certified Public Accountants, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. In 2014, the FASB issued a new accounting standard related to revenue recognition which could change the way we account for certain of our sales transactions. The adoption of this standard and changes in other principles or interpretations could have a significant effect on our reported financial results and could affect the reporting of transactions completed before the effective dates of the standard. Such change could have a significant effect on our reported financial results. In addition, we may need to significantly change our accounting systems and processes if we are required to adopt future or proposed changes in accounting principles noted above. The cost of these changes may negatively impact our results of operations during the periods of transition.

Risks Related to Our Markets and Strategy

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

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

Our revenues in Asia decreased 24% in the nine months ended September 30, 2017 from the same period last year. Our operations in Asia generated an operating loss of $4.4 million and $3.1 million for the nine months ended September 30, 2017 and 2016, respectively. Our revenues in Europe decreased 13% in the nine months ended September 30, 2017 from the same period last year. Our operations in Europe generated an operating income of $1.5 million and $5.0 million for the nine months ended September 30, 2017 and 2016, respectively.

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

- uncertainties and instability in economic and market conditions caused by the United Kingdom's vote to exit the European Union;
- uncertainty regarding how the United Kingdom's access to the European Union Single Market and the wider trading, legal, regulatory and labor environments, especially in the United Kingdom and European Union, will be impacted by the United Kingdom's vote to exit the European Union, including the resulting impact on our business and that of our clients;
- trade barriers and changes in trade regulations;
- difficulties in developing, staffing and simultaneously managing foreign operations as a result of distance, language and cultural differences;
- stringent local labor laws and regulations;
- risks related to government regulation; and
- potentially adverse tax consequences.

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

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

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

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

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

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

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

We spent $5.8 million and $7.9 million on marketing initiatives relating to member acquisition and marketing for the nine months ended September 30, 2017 and 2016, respectively, and expect to continue to spend significant amounts to acquire new members. We must continue to retain and acquire members in order to maintain or increase revenue. We cannot assure you that the revenue from members we acquire will ultimately exceed the cost of acquiring new members. If members do not perceive our offers to be of high value and quality or if we fail to introduce new and more relevant deals, we may not be able to acquire or retain members. If we reduce our member acquisition costs, we cannot assure you that this will not adversely impact our ability to acquire new members. If we are unable to acquire new members who purchase our deals directly or indirectly in numbers sufficient to grow our business, or if members cease to purchase our deals directly or indirectly through our advertisers, the revenue we generate may decrease and our operating results will be adversely affected. If the level of usage by our member base declines or does not grow as expected, we may suffer a decline in member growth or revenue. A significant decrease in the level of usage or member growth would have an adverse effect on our business, financial condition and results of operations. In addition, a shift of our audience to mobile devices and social media channels without corresponding updates of our offerings or marketing activities to address this audience could result in lower revenues.

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

Events like the Middle East conflicts, the global financial crisis of 2008, the terrorist attacks in France, Turkey, Belgium and Germany, mass shooting incidents such as in Las Vegas and the recent natural disasters, such as hurricanes, fires and floods in the United States and the Caribbean, have a negative impact on the travel industry and affect travelers' behavior. 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 the travel industry. 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 vote to exit from the European Union could lead to economic uncertainty and have a negative impact on the travel industry and our European business. The United Kingdom could lose access to the single European Union market, travel between the United Kingdom and European Union countries could be restricted, and we could face new regulatory costs and challenges, the scope of which are presently unknown.

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

To remain competitive, we must continually improve the responsiveness, functionality, and features of our products and services. We may not succeed in developing features, functions, products, or services that travel and entertainment companies and Internet users find attractive. This could reduce the number of travel and entertainment companies and Internet users using our products and materially adversely affect our business. We also recently launched a new and simpler design for our website. We cannot guarantee that our recently launched products will be embraced by our members. While we are striving to improve functionality, usability and design in our products, the recent enhancements on web and mobile may not achieve the desired results we anticipate, and if unsuccessful, could result in a decline in revenues and a negative impact on our business.

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

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

- rapidly changing technology in online advertising, including a significant shift of business to mobile platforms;
- evolving industry standards, including both formal and *de facto* standards relating to online advertising;
- developments and changes relating to the Internet;
- competing products and services that offer increased functionality; and
- changes in travel company, entertainment company, and Internet user requirements.

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

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

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

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

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

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

We compete for advertising dollars with large Internet portal sites, such as MSN and Yahoo!, that offer listings or other advertising opportunities to travel, entertainment and local businesses. These companies have significantly greater financial, technical, marketing and other resources and larger advertiser bases. We compete with search engines like Google and Bing that offer pay-per-click listings. We compete with travel metasearch engines like Kayak Software Corp. and online travel and entertainment deal publishers. We compete with large online travel agencies like Expedia, TripAdvisor, and Priceline that also offer advertising placements and hotel booking platforms and capture consumer interest. As a result of our acquisition of Travelzoo Asia Pacific, we now compete or may compete in the future with large online travel service providers, like Ctrip 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 recently announced acquisitions to further consolidate the online travel industry. For example, Ctrip announced that it was acquiring Skyscanner and Priceline announced it was acquiring Momondo. Expedia owns Travelocity, Orbitz, Hotels.com, Hotwire, Trivago, and HomeAway, among others. The continued consolidation of the global travel market may impact our ability to compete in certain areas.

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

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

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

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

We use data technology and software products from third parties, and technology from our vendors may not continue to be available to us on commercially reasonable terms, or at all. Our business will suffer if we are unable to access technology, to gain access to additional products or to integrate new technology with our existing systems. This could cause delays in our development and introduction of new services and related products or enhancements of existing products until equivalent or replacement technology can be accessed, if available, or developed internally, if feasible. If we experience these delays, our business could be materially adversely affected. We also rely on certain third party computer systems and third party service providers, including GDSs and computerized central reservation systems, in connection with providing certain of our hotel booking services. Any interruption in these third party services and systems or deterioration in their performance could prevent us from utilizing certain booking services and have an adverse effect on our business, brands and results of operations. Our agreements with some third party service providers are terminable upon short notice and often do not provide recourse for service interruptions.

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

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

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

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

- Impairment of goodwill and other assets acquired or divested.

- Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities, and harm our business generally.

- Future acquisitions may also require us to issue additional equity securities, spend our cash, or incur debt (and increased interest expense), liabilities and amortization expenses related to intangible assets or write-offs of goodwill, which could adversely affect our results of operations and dilute the economic and voting rights of our stockholders. Also, the anticipated benefit of many of our acquisitions may not materialize.

Risks Related to the Market for our Shares

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

The trading price of our common stock has been and may continue to be subject to wide fluctuations. During the twelve months ended September 30, 2017, the closing price of our common stock on the NASDAQ Global Select Market ranged from $7.75 to $12.77. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results; announcements of technological innovations or new products by us or our competitors; changes in financial estimates and recommendations by securities analysts; the operating and stock price performance of other companies that investors may deem comparable to us; and news reports relating to trends in our markets or general economic conditions. Our stock price may be volatile given that operating results may vary from the expectations of securities analysts and investors, which are beyond our control. In the event that our operating results fall below the expectations of securities analysts or investors, the trading price of our common shares may decline significantly. Moreover, fluctuations in our stock price and our price-to-earnings multiple may have made our stock attractive to hedge or day-trading investors who often shift funds into and out of stocks rapidly, exacerbating price fluctuations in either direction, particularly when viewed on a quarterly basis.

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

We have a principal stockholder.

Ralph Bartel, who founded Travelzoo and who is a Director of the Company is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro. As of September 30, 2017, Azzurro is the Company's largest stockholder, holding approximately 57.8% of the Company's outstanding shares.

Risks Related to Legal Uncertainty

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

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

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

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

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

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

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

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

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

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

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

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

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

Due to the global nature of the Internet, it is possible that various states or foreign countries might attempt to regulate our transmissions or levy sales, income or other taxes relating to our activities. Tax authorities at the international, federal, state and local levels are currently reviewing the appropriate treatment of companies engaged in Internet commerce. New or revised international, federal, state or local tax regulations may subject us or our members to additional sales, income and other taxes. We cannot predict the effect of current attempts to impose sales, income or other taxes on commerce over the Internet. New or revised taxes and, in particular, sales taxes, VAT and similar taxes would likely increase the cost of doing business online and decrease the attractiveness of advertising and selling goods and services over the Internet. New taxes could also create significant increases in internal costs necessary to capture data, and collect and remit taxes. Any of these events could have an adverse effect on our business and results of operations.

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

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

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

In addition, we may acquire personal or confidential information, including credit card information, from users of our websites and mobile applications, related to our *Local Deals* and hotel booking platform. Our existing security measures may not be successful in preventing security breaches. For example, outside parties may attempt to fraudulently induce employees, merchants or customers to disclose sensitive information in order to gain access to our secure systems and networks. A party (whether internal, external, an affiliate or unrelated third party) that is able to circumvent our security systems could steal consumer information or transaction data or other proprietary information. In the last few years, several major companies, such as Target, Home Depot, Zappos, LinkedIn and Sony, have experienced high-profile security breaches that exposed their customers' personal information. While we strive to use commercially acceptable means to protect customer personal information, no method of transmission over the Internet, or method of electronic storage, is 100% secure. Further, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. These issues are likely to become more difficult to manage as we expand the number of places where we operate and as the tools and techniques used in such attacks become more advanced. Security breaches or the unauthorized disclosure of customer personal information could result in negative publicity, damage our reputation, expose us to risk of loss or litigation and possible liability and subject us to regulatory penalties and sanctions. Any failure or perceived failure by us, or our service providers, to comply with the privacy policies, privacy-related obligations to users or other third parties, or privacy related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other user data, may result in governmental enforcement actions, litigation or public statements against the company by consumer advocacy groups or others and could cause our customers and members to lose trust in the company, which could have an adverse effect on our business. If our security measures are breached, or if our services are subject to attacks that degrade or deny the ability of users to access our products and services, our products and services may be perceived as not being secure, users and customers may curtail or stop using our products and services, and we may incur significant legal and financial exposure.

We could also be adversely affected if legislation or regulations are expanded to require changes in our business practices or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our business, results of operations or financial condition. For example, we, like many online companies, have been utilizing the U.S.- E.U. Safe Harbor framework and relying on this method to ensure the appropriate transfer of data between the U.S. and Europe. However, on October 6, 2015, the European Court of Justice ruled that this 15-year old Safe Harbor pact is no longer valid. While we are evaluating and implementing alternatives, it is difficult at this point to know whether this ruling will have an impact on our business. In addition, the European Union has adopted a new data protection legal framework, effective in May 2018, which may result in a greater compliance burden for companies, including us, with users in Europe and increased costs of compliance. To the extent that European regulatory authorities impose fines on the Company or require changes to the Company's business practices, the Company's business and results of operations could be materially and adversely affected. We also could be adversely affected if legislation or regulations are expanded to require changes in our business practices or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our business, results of operations or financial condition.

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

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

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

Although the Company has settled the states' unclaimed property claims with all states, the Company may still receive inquiries from certain potential Netsurfer promotional stockholders that had not provided their state of residence to the Company by April 25, 2004. Therefore, the Company is continuing its voluntary program under which it makes cash payments to individuals related to the promotional shares for individuals whose residence was unknown by the Company and who establish that they satisfy the original conditions required for them to receive shares of Travelzoo.com Corporation, and who failed to submit requests to convert their shares into shares of Travelzoo within the required time period. This voluntary program is not available for individuals whose promotional shares have been escheated to a state by the Company, except those individuals for which their residence was unknown to the Company. The Company did not make any payment under this voluntary program for the nine months ended September 30, 2017.

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

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

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

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

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

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

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

We have registered the *Travelzoo* trademark in the U.S., Australia, Canada, China, Hong Kong, Japan, South Korea, Taiwan, the European Union and the U.K. If we are unable to protect our rights in the mark in North America, Europe, and Asia Pacific, where we have licensed the trademark as described above under "overview", a key element of our strategy of promoting *Travelzoo* as a brand could be disrupted and our business could be adversely affected. We may not always be able to detect unauthorized use of our proprietary information or take appropriate steps to enforce our intellectual property rights. In addition, the validity, enforceability, and scope of protection of intellectual property in Internet-related industries are uncertain and still evolving. The laws of countries in which we may market our services in the future are uncertain and may afford little or no effective protection of our intellectual property. The unauthorized reproduction or other misappropriation of our proprietary technology could enable third parties to benefit from our technology and brand name without paying us for them. If this were to occur, our business could be materially adversely affected.

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Our operations in Canada expose us to foreign currency risk associated with agreements being denominated in Canadian dollars. Our operations in Europe expose us to foreign currency risk associated with agreements being denominated in British Pound Sterling and Euros. Our operations in Asia Pacific expose us to foreign currency risk associated with agreements being denominated in Australian dollars, Chinese Yuan, Hong Kong dollar, Japanese Yen and Taiwanese Yuan. We are exposed to foreign currency risk associated with fluctuations of these currencies as the financial position and operating results of our operations in Asia Pacific, Canada and Europe are translated into U.S. dollars for consolidation purposes. We do not use derivative instruments to hedge these exposures. We are a net receiver of U.S. dollars from our foreign subsidiaries and therefore benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to the foreign currency used by the foreign subsidiary as its functional currency. We have performed a sensitivity analysis as of September 30, 2017, 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, 2017. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in an incremental $141,000 foreign exchange loss for the nine month ended September 30, 2017.

Item 4. Controls and Procedures

Based on management's evaluation (with the participation of the Company's Global Chief Executive Officer (CEO) and Chief Financial Officer (CFO)), as of September 30, 2017, our CEO and CFO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in U.S. Securities and Exchange Commission (SEC) rules and forms, and that such information is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

During the quarter ended September 30, 2017, there were no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

An updated description of the risk factors associated with our business is included under "Risk Factors" in "Management's Discussion and Analysis of Financial Condition and Results of Operations," contained in Item 2 of Part I of this report. This description includes any material changes to and supersedes the description of the risk factors associated with our business previously disclosed in Item 1A of our 2016 Annual Report on Form 10-K and is incorporated herein by reference.

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

Repurchases of Equity Securities

We repurchased 288,000 shares of our equity securities during the three months ended September 30, 2017.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Shares that May Yet be Purchased Under the Programs (1)
July 1, 2017–July 30, 2017	57,000	$ 11.01	628,000	234,000
August 1, 2017–August 31, 2017	128,000	$ 9.00	1,149,000	106,000
September 1, 2017–September 30, 2017	103,000	$ 8.32	857,000	3,000
	288,000			

(1) In February 2017, 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, 2017, the Company repurchased 288,000 shares of common stock.

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 Incorporation of Travelzoo and Certificates of Amendment To the Certificate of Incorporation to Effect a Reverse Stock Split Followed by a Forward Stock Split Of Travelzoo's Common Stock.
3.3	—	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)
10.2*‡	—	Mutual Separation Agreement, date November 1, 2017, between Vivian Hong and Travelzoo
31.1‡	—	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2‡	—	Certification of Chief Financial 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 Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS†		XBRL Instance Document
101.SCH†		XBRL Taxonomy Extension Schema Document
101.CAL†		XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF†		XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†		XBRL Taxonomy Extension Label Linkbase Document
101.PRE†		XBRL Taxonomy Extension Presentation Linkbase Document

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

‡ Filed herewith

† Furnished herewith

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/ GLEN CEREMONY

Glen Ceremony
On behalf of the Registrant and as Chief Financial Officer and Principal Accounting Officer

Date: November 2, 2017

MUTUAL SEPARATION AGREEMENT

This Mutual Separation Agreement (the "**Agreement**") is made by and between the two parties below:

Employer: Travelzoo (Shanghai) Media Co., Ltd. (the "**Company**")

Employee: Vivian Hong (the "**Employee**") ID No.: 310103197309093225

Whereas:

(1) The Employee has an employment relationship and Employment Contracts (the "**Employment Contract**") with the Company; and

(2) Both parties desire to terminate the employment relationship and Employment Contract by mutual agreement.

NOW, THEREFORE, the Parties hereby reach the following agreements regarding the mutual separation through friendly and equally consultations:

1. The Company and the Employee hereby mutually confirm to terminate the employment relationship and Employment Contract effective on November 30, 2017 (the "**Separation Date**"). The Employee shall normally perform all of her job duties and obligations under the Employment Contract until the Separation Date.

2. In consideration of the covenants by the Employee and subject to the terms and conditions contained herein, the Company shall pay the Employee the final settlement payment in one lump sum in the amount of RMB 1,150,000.

   Subject to the Employee's completion of the exit handover formalities as required by the Company, the Settlement Payment will be paid to the Employee's current payroll bank account within 30 days after the Separation Date.

3. Employee's salary will be paid until the Separation Date and the social insurance and housing accumulation fund paid until the month of the Separation Date.

   The Company will payout unused vacation payment of a maximum of 17 days. The Employee can take any accrued and unused vacation time before the Separation Date, which will be deducted from the unused vacation payment.

4. The Employee is entitled to be reimbursed for any pre-approved business expense incurred prior to the Separation Date under the rules established by the Company relating to such reimbursement, provided that such business expenses are submitted in the customary way within seven (7) days of the Separation Date.

5. The Company shall withhold the appropriate amount of individual income tax from the payments to be made under Section 2**.** and make payments to the tax authorities on behalf of the Employee as required by law.

6. **Release of Claims.**

6.1 The Company and the Employee hereby confirm that both parties are fully aware and understand the provisions of relevant laws and regulations of China and voluntarily and irrevocably enter into this Agreement without using such means as deception or coercion, or taking advantage of the other party's difficulties, or having major misconstruction, to impact the validity of this Agreement. In consideration of the settlement payment set forth in Section 2 hereof, the Employee agrees to release all known and unknown claims that the Employee had or may have against the Company, its current or former, direct or indirect shareholders, parents, subsidiaries, brother-sister companies, and all other affiliates and related entities, and their current and former partners, directors, officers, employees, agents, and other related parties, arising out of, or in any way relating to, the Employee's employment, or Separation of the Employee's employment, with the Company.

6.2 This release includes, but is not limited to: (1) all claims related to the Employee's compensation or benefits from the Company, including salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, overtime pay; (2) all claims for breach of contract and wrongful Separation; and (3) all statutory claims arising under the laws and/or regulations of the PRC (including the PRC Labor Law and the PRC Employment Contracts Law) or of the municipal of Shanghai.

7. The Employee shall promptly and fully complete the handover of her work at the Company and return all Company properties (including the official Stamp of the Company, computers and relevant assets owned by the Company) to the Company on or before the Separation Date. If the Employee fails to fulfill the foregoing obligations, the Company has the right to postpone making the payments specified under Section 2 until and unless the Employee fulfills the foregoing obligations.

8. The Employee shall abide by all post-Separation obligations set forth in her employment contract and any other agreement between the Employee and the Company, including but not limited to certain confidentiality obligations and non-compete obligations.

The Employee shall keep all the process of negotiating and executing this Agreement and the content of this Agreement in strict confidence, and shall not disclose to any third party.

9. Notwithstanding the foregoing, the Company hereby releases the Employee from the post-Separation non-compete obligation toward the Company provided in the employment contract. The Employee acknowledges that the Company will not be obligated to pay any compensation for the non-compete obligation.

10. The Employee shall not make, or cause or encourage others to make, any statement, written or verbal, that disparages, criticizes, defames or slanders the Company, its affiliates, or any of their respective directors, employees, officers, products or business practices.

11. Effective immediately on the Separation Date, the Employee will no longer be authorized to act on behalf of the Company or in the Company's name. The Employee shall not claim, or cause or allow others to claim, that the Employee is still affiliated with the Company or any of its affiliates.

12. If any provision (or part of any provision) of this agreement is held to be invalid or unenforceable, the validity and enforceability of the other provisions of this agreement shall not be affected.

13. This agreement contains the entire agreement between the parties regarding the subject matter hereof and may be amended only by a written agreement signed by the parties. Upon the execution of this agreement, this agreement supersedes all prior written or verbal agreements or undertakings between the parties with respect to the subject matter hereof.

14. The execution, interpretation, performance of and dispute resolution in connection with this agreement are governed by law of the People's Republic of China.

15. This agreement takes effect upon execution by the parties.

Travelzoo (Shanghai) Media Co., Ltd.	**Vivian Hong**
(Company Seal)	Signature: *(Please initial at the bottom of each page)*
	ID Number: 310103197309093225 Tel.:
November 1, 2017	November 1, 2017

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 2, 2017

Exhibit 31.2

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

I, Glen Ceremony, 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/ GLEN CEREMONY

Glen Ceremony

Chief Financial Officer

Date: November 2, 2017

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, 2017, 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 2, 2017

By: /s/ HOLGER BARTEL

Holger Bartel

Global Chief Executive Officer

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL 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, 2017, 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 2, 2017

By: /s/ GLEN CEREMONY

Glen Ceremony

Chief Financial Officer