TRAVELZOO INC
Form 10-K
March 14, 2016

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

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 INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	36-4415727 (I.R.S. employer identification no.)
590 Madison Avenue, 37th Floor New York, New York (Address of principal executive offices)	10022 (Zip code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
NONE
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
Common Stock, $0.01 Par Value
(Title of Class)

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

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

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 x 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 x No ¨

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

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 x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of June 30, 2015, the aggregate market value of voting stock held by non-affiliates of the Registrant, based upon the closing sales price for the Registrant's common stock, as reported on the NASDAQ Global Select Market, was $82,343,052.

The number of shares of the Registrant's common stock outstanding as of March 14, 2016 was 14,518,655 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its 2016 Annual Meeting of Stockholders are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13, and 14.

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PART I

Forward-Looking Statements

The information in this Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based upon current expectations, assumptions, estimates and projections about Travelzoo Inc. 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”, a 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 in this Report in Part I Item 1A and the risks discussed in our other Securities and Exchange Commission (“SEC”) filings. The forward-looking statements included in this Report reflect the beliefs of our management on the date of this Report. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events or circumstances occur in the future.

Item 1. Business

Overview

Travelzoo Inc. (the “Company” or “Travelzoo”) is a global media commerce company. 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, 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.

We attract a high-quality audience of travel and leisure enthusiasts across multiple digital platforms, including e-mail, web, social media and mobile applications. Our e-mail newsletters are published in 11 countries worldwide. Travelzoo’s website is visited by 8.4 million unique visitors each month. We reach an audience of over 60 million Internet users each month via the Travelzoo Network, a network of websites that syndicate our deal content, including The Los Angeles Times and The Chicago Tribune. We have over 3.2 million followers on Facebook and Twitter. Our mobile applications have been downloaded 4.7 million times.

Our publications and products include the Travelzoo websites (travelzoo.com, travelzoo.ca, travelzoo.co.uk, travelzoo.de, travelzoo.es, travelzoo.fr, cn.travelzoo.com, travelzoo.co.jp, travelzoo.com.au, travelzoo.com.hk, travelzoo.com.tw, among others), the Travelzoo iPhone and Android applications, the Travelzoo Top 20 e-mail newsletter, and the Newsflash e-mail alert service. We operate SuperSearch, a pay-per-click travel search tool, and the Travelzoo Network, a network of third-party websites that list deals published by Travelzoo. Our Travelzoo websites include 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. We also operate Fly.com, a travel search engine that allows users to quickly and easily find the best prices on flights from hundreds of airlines and online travel agencies.

On August 20, 2015 we acquired the Travelzoo Asia Pacific business (“Asia Pacific”), which includes the Travelzoo businesses in Australia, China, Hong Kong, Japan, Taiwan, and Southeast Asia. This business was independently operated by Azzurro Capital Inc. ("Azzurro") under a licensing agreement with Travelzoo Inc. Azzurro was the majority stockholder of the Travelzoo Asia Pacific business. Travelzoo Inc. accounted for the acquisition as a common control transaction and change in reporting entity. The financial results for Travelzoo Inc. have been retrospectively adjusted to include the financial results of Asia Pacific in the current and prior periods as though the transaction occurred at the beginning of each period presented. The Asia Pacific assets and liabilities have been combined with Travelzoo Inc. at their carrying values as though the transaction occurred at the beginning of each period presented. The Asia Pacific transaction proceeds were reflected as an equity transaction, included in retained

earnings, during the period the transaction occurred, which was in the year ended December 31, 2015. See Note 13 to the accompanying unaudited condensed consolidated financial statements for further information on the acquisition of Asia Pacific.

More than 2,000 companies use our services, including Air New Zealand, Apple Vacations, British Airways, Cathay Pacific Airways, Expedia, Fairmont Hotels and Resorts, Hawaiian Airlines, InterContinental Hotels Group, Interstate Hotels & Resorts, Lufthansa, Key Tours International, Liberty Travel, Princess Cruises, Singapore Airlines, Solar Tours, Starwood Hotels & Resorts Worldwide, Travelocity, United Airlines, Vacation Express and Virgin America.

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

We have three operating segments based on geographic regions: Asia Pacific, Europe and North America. Asia Pacific consists of our operations in Australia, China, Hong Kong, Japan, Taiwan, and Southeast Asia. Europe consists of our operations in France, Germany, Spain, and the U.K. North America consists of our operations in Canada and the U.S. For the year ended December 31, 2015, Asia Pacific operations were 8% of revenues and European operations were 30% of revenues. Financial information with respect to our business segments and certain financial information about geographic areas appears in Note 12 to the accompanying consolidated financial statements.

Our principal business office is located at 590 Madison Avenue, 37th Floor, New York, New York 10022.

Ralph Bartel, who founded Travelzoo and who is a Director of the Company, is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro Capital Inc. ("Azzurro"). As of December 31, 2015, Azzurro is the Company's largest stockholder, holding approximately 51.2% of the Company's outstanding shares. As of December 31, 2015, there were 14,518,655 shares of common stock outstanding.

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

Our Industry

Our mission is to provide our audience with the highest quality information about the best travel, entertainment and local deals. We believe there is a sizable travel and entertainment industry that we participate in that provides an opportunity to find high quality deals for our members and users. Direct spending on leisure travel in the United States by domestic and international travelers is expected to rise by 4.3% per year to $1,027 billion in 2025 and 78% of the domestic trips were taken for leisure purposes, according to the U.S. Travel Association. Travel & Tourism produced $7.6 trillion in value (10% of global GDP) for the global economy in 2014. Visitors from emerging economies now represent a 46% share of these international arrivals (up from 38% in 2000), according to the World Travel & Tourism Council. In addition, we believe that we are well positioned with our operations in Asia, Europe and North America to capture high quality deals for our members and users.

While our mission is to provide our audience with the highest quality information about the best travel, entertainment and local deals, our revenues are generated from advertising fees. According to the Kelsey Group's (BIA/Kelsey) new U.S. Local Media Forecast 2016, BIA/Kelsey forecasts total local media revenues to reach $146.6 billion in 2016. Online/digital will grow to $42.6 billion or 29.1% of total local media revenues in 2016. We believe that traditional media outlets such as newspapers, television and radio continue to be another medium for travel, entertainment and local businesses to advertise their offers, though the percentage spent on advertising in these traditional media outlets is decreasing. In addition, the continued rise in smart phones has changed the business rules for online marketing, with the consumption of online advertising rapidly moving to mobile devices. BIA/Kelsey anticipates that location-targeted mobile advertising revenues will grow from $8.5 billion in 2015 to $11.3 billion in 2016 and local social media revenues will grow from $2.4 billion in 2015 to $3.3 billion in 2016.

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

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

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

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

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

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Mobile advertising extends our products and services by providing mobile-specific features to mobile device users. Mobile advertising is still in its early stage, though mobile devices are quickly becoming the world's newest gateway for information. We are focused on developing easy-to-use mobile applications to help advertisers extend their reach, help create revenue opportunities for our advertisers, and deliver relevant and useful ads to users on the go. We continue to invest in improving users' access to our services through such devices.

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

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

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

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

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

Our Products and Services

We provide airlines, hotels, cruise lines, vacation packagers, other travel suppliers, entertainment and local businesses with a fast, flexible, and cost-effective way to reach millions of Internet users. Our publications include the Travelzoo websites, the Travelzoo Top 20 e-mail newsletter, the Newsflash e-mail alert service, and the Local Deals and Getaway e-mail alert services. We operate SuperSearch, a pay-per-click travel search tool and the Travelzoo Network, a network of third-party websites that list deals published by Travelzoo. We also operate Fly.com, a travel search engine that enables users to find and compare the best flight options from multiple sources, including airline and online travel agency websites. While our products provide advertising opportunities for travel, entertainment and local businesses, they also provide Internet users with a free source of information on current sales and specials from thousands of travel, entertainment and local businesses.

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

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The following table presents an overview of our products:

Product	Content	Publication Schedule	Reach/Usage*	Advertiser Benefits	Consumer Benefits
Travelzoo websites	Websites in the U.S., Canada, France, Germany, Spain, and the U.K. listing thousands of outstanding sales and specials from more than 2,000 travel, entertainment and local businesses	24/7	8.4 million unique visitors per month	Broad reach, sustained exposure, targeted placements by destination and travel segment	24/7 access to deals, ability to search and browse by destination or keyword
Travelzoo Top 20	Popular e-mail newsletter listing 20 of the week's most outstanding deals	Weekly	28.0 million members	Mass “push” advertising vehicle to quickly stimulate incremental travel and entertainment purchases	Weekly access to 20 outstanding, handpicked deals chosen from among thousands
Newsflash	Regionally-targeted e-mail alert service with a single time-sensitive and newsworthy travel and entertainment offer	Within two hours of an offer being identified	26.0 million members	Regional targeting, 100% share of voice for advertiser, flexible publication schedule	Breaking news offers delivered just-in-time
Local Deals and Getaway	Locally-targeted e-mail alert service with a single time-sensitive and newsworthy offer from local merchants such as spas and restaurants	Twice per week in active markets	Over 197 local markets	Local targeting by zip code,100% share of voice for the local businesses, flexible publication schedule	Breaking news offers delivered just-in-time
Travelzoo Network	A network of third-party websites that list outstanding deals published by Travelzoo	24/7	Over 380 third-party websites	Drives qualified users with substantial distribution beyond the Travelzoo audience	Contextually relevant travel deals that have been handpicked and professionally reviewed

Travelzoo Mobile Applications	iPhone and Android applications that allow users to discover the best Travel, Entertainment and Local Deals.	On-demand	4.7 million downloads	Allows Travel, Entertainment and Local Deals advertisers to reach our audience that is on the go.	24/7 access to Travel, entertainment and Local Deals for consumers that are on the go.
SuperSearch	Travel search tool using a proprietary algorithm to recommend sites and enable one-click searching	On-demand	3.0 million monthly searches	Drives qualified traffic directly to advertiser site on a pay-per-click basis	Saves time and money by recommending the sites most likely to have great rates for a specific itinerary
Fly.com	Travel search engine that enables users to find and compare the best flight, hotel and rental car options from multiple sources	On-demand	1.6 million monthly searches	Provides advertisers a low cost distribution channel and retention of the user engagement on the advertiser's website	Free access to real-time price comparisons from airlines and online travel agencies

* For Travelzoo websites, reach information is based on data from Google Analytics. For Top 20, Newsflash, Local Deals and Getaway, Travelzoo Network, SuperSearch, Fly.com and Travelzoo mobile applications, reach/usage information is based on internal Travelzoo statistics as of December 31, 2015.

Our Audience

We attract a high-quality audience of travel and leisure enthusiasts across multiple digital platforms, including e-mail, web, social media and mobile apps. We inform our audience about travel, entertainment and local deals available at over 2,000 companies. Our e-mail newsletters are published in 11 countries worldwide. Travelzoo's website is visited by 8.4 million unique visitors each month. We reach an audience of over 60 million Internet users each month via the Travelzoo Network, a network of websites that syndicate our deal content, including The Los Angeles Times and The Chicago Tribune. We have over 3.2 million followers on Facebook and Twitter. Our mobile applications have been downloaded 4.7 million times.

Benefits to Travel, Entertainment and Local Businesses

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

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

- Real-Time Listings of Special Offers. Our technology allows travel and entertainment companies to advertise special offers on a real-time basis.
- Real-Time Updates. Our technology allows travel and entertainment companies to update their listings on a real-time basis.
- Real-Time Performance Reports. We provide travel and entertainment companies with real-time tracking of the performance of their advertising campaigns. Our solution enables travel and entertainment companies to optimize their campaigns by removing or updating unsuccessful listings and further promote successful listings.
- Access to Millions of Consumers. We provide travel and entertainment companies fast access to over 28 million travel shoppers.
- Global Reach. We offer access to Internet users in Australia, Canada, China, France, Germany, Hong Kong, Japan, Southeast Asia, Spain, Taiwan, the U.K and U.S.

Key features of our solution for local businesses include:

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

Benefits to Consumers

Our Travelzoo websites (travelzoo.com, travelzoo.ca, travelzoo.co.uk, travelzoo.de, travelzoo.es, travelzoo.fr, cn.travelzoo.com, travelzoo.co.jp, travelzoo.com.au, travelzoo.com.hk, travelzoo.com.tw, among others), Travelzoo Top 20 e-mail newsletter, Newsflash, Local Deals, Getaway, the Travelzoo Network, SuperSearch search tool, and Fly.com search engine provide consumers information on current offers at no cost to the consumer. Key features of our products include:

- Aggregation of Offers from Many Companies. Our Travelzoo websites and our Travelzoo Top 20 e-mail newsletter aggregate information on current offers from more than 2,000 travel, entertainment and local businesses. This saves the consumer time when searching for travel, entertainment and local deals, sales and specials.
- Current Information. Compared to newspaper, TV or radio advertisements, we provide consumers more current information, since our technology enables travel, entertainment and local businesses to update their listings on a real-time basis.
- Reliable Information. We operate a Test Booking Center to check the availability of travel, entertainment and local deals before publishing.
- Search Tools. We provide consumers with the ability to search for specific offers.

Growth Strategy

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

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

Advertisers

As of December 31, 2015, our advertiser base included more than 2,000 travel, entertainment and local businesses, including airlines, hotels, cruise lines, vacations packagers, tour operators, destinations, car rental companies, travel agents, theater and performing arts groups, restaurants, spas, and activity companies. Some of our advertisers are:

Ace the Himalaya
AirAsia
Air New Zealand
Atlantis, Paradise Island, Bahamas
Apple Vacations
British Airways
Cathay Pacific Airways
Cirque du Soleil
Delta Air Lines
Expedia
Fairmont Hotels and Resorts
Fareportal
Hawaiian Airlines
Hong Kong Tourism Board
Hotwire
Iceland Air
InterContinental Hotels Group
Interstate Hotels & Resort
Jet Luxury Resorts
Key Tours International
Liberty Travel
Lufthansa
Mandalay Bay Resort and Casino
Park Hyatt Siem Reap
Pleasant Holidays
Priceline
Princess Cruises
Singapore Airlines
Starwood Hotels & Resorts Worldwide
TripAdvisor
United Airlines
Vacation Express
Virgin America
Windstar Cruises

As discussed in Note 12 to the accompanying consolidated financial statements, we did not have any advertisers that accounted for 10% or more of our total revenues during the years ended December 31, 2015, 2014 and 2013. The agreements with certain advertisers are in the form of multiple insertion orders and merchant agreements from groups of entities under common control. It is possible that we may have an advertiser or advertisers that account for 10% or more of our total revenues in future years because management believes there is a high concentration in the online travel agency industry.

In 2015, 8% of our total revenues were generated from our Asia Pacific operations, 30% of our total revenues were generated from our European operations and 62% of our total revenues were generated from our North America operations. See Note 12 to the accompanying consolidated financial statements.

Sales and Marketing

As of December 31, 2015, our advertising sales force and sales support staff consisted of 168 employees worldwide. We intend to grow our advertiser base by expanding over time the size of our sales force.

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

Technology

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

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

Competition

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

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

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

Government Regulation and Legal Uncertainties

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

Privacy Concerns. We are subject to a number of privacy and similar laws and regulations in the countries in which we operate and these laws and regulations will likely continue to evolve over time, both through regulatory and legislative action and judicial decisions. Complying with these varying national requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business and violations of privacy-related laws can result in significant penalties. We post on our websites our privacy policies and practices concerning the collection, use and disclosure of user data. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any regulatory requirements or orders or other federal, state or international privacy laws and regulations could result in proceedings or actions against us by governmental entities or others, subject us to penalties and negative publicity, require us to change our business practices, and increase our costs and adversely affect our business.

Anti-Spam Legislation. The CAN-SPAM Act, a federal anti-spam law, pre-empts various state anti-spam laws and establishes a single standard for e-mail marketing and customer communications. We believe that this law, on an overall basis, benefits our business as we do not use spam techniques or practices and may benefit now that others are prohibited from doing so.

Domain Names. Domain names are the user's Internet “addresses.” The current system for registering, allocating and managing domain names has been the subject of litigation and of proposed regulatory reform. We have registered travelzoo.com, travelzoo.ca, travelzoo.co.jp, travelzoo.com.au, travelzoo.com.tw, travelzoo.co.uk, travelzoo.de, travelzoo.fr, weekend.com, and weekends.com, among other domain names, and have registered “Travelzoo” as a trademark in the United States, Canada, and the European Union. In January 2009, we purchased the domain name Fly.com. Because of these protections, it is unlikely, yet possible, that third parties may bring claims for infringement against us for the use of our domain name and trademark. In the event such claims are successful, we could lose the ability to use our domain names. There can be no assurance that our domain names will not lose their value, or that we will not have to obtain entirely new domain names in addition to or in lieu of our current domain names if changes in overall Internet domain name rules result in a restructuring in the current system of using domain names which include “.com,” “.net,” “.gov,” “.edu” and other extensions.

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

Intellectual Property

Our success depends to a significant degree upon the protection of our brand names, including Travelzoo and Top 20. If we were unable to protect the Travelzoo and Top 20 brand names, our business could be materially adversely affected. We rely upon a combination of copyright, trade secret and trademark laws to protect our intellectual property rights. We have registered the Travelzoo and Top 20 trademarks, among others, with the United States Patent and Trademark Office. We have registered the Travelzoo and Travelzoo Top 20 trademarks with the Office for Harmonization in the Internal Market of the European Community. We have registered the Travelzoo trademark in Australia, Canada, China, Hong Kong, Japan, South Korea, and Taiwan. The steps we have taken to protect our proprietary rights, however, may not be adequate to deter misappropriation of proprietary information.

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

Employees

As of December 31, 2015, we had 473 employees in Asia Pacific, Europe and North America. None of our employees are represented under collective bargaining agreements. We consider our relations with our employees to be good.

Internet Access to Other Information

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

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. 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.

In the years ended December 31, 2015, and 2014, we generated a net income of $10.9 million and $13.1 million, respectively. In the year ended December 31, 2013, we incurred a net loss of $6.6 million. Although we were profitable in 2015 and 2014, there is no assurance that we will continue to be profitable in the future. We forecast our future expense levels based on our operating plans and our estimates of future revenues. We may find it necessary to significantly accelerate expenditures relating to our sales and marketing efforts or otherwise increase our financial commitment to creating and maintaining brand awareness among Internet users and advertisers. We may also 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 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 and Fly.com brands, 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 Local Deals and Getaway formats and the addition of a hotel booking platform may result in additional costs that exceed revenue and may trigger additional stock volatility.

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, building a customer service organization, marketing, technology tracking systems and payment processing. This format, introduced to the market in recent years, has resulted in many competitors entering the marketplace, thereby creating a very competitive marketplace. This competitive landscape along with the required investments to start, maintain and grow this format create a risk that our costs may exceed our revenues in the short and long term, which may materially impact our results of operation and financial condition. Operating this format may introduce additional volatility to our stock price due to the performance of this format by the Company and/or the overall market valuations that are being determined by the market for companies operating this format of advertising. Moreover, 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.

In addition, we are 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. 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. 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 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.

Recent 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 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 personal computers 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 United States 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 United States and various foreign jurisdictions. From time to time, we are 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 our taxes or our net operating income. The Company's 2009 federal income return is currently under examination, including a review of the impact of the sale of Asia Pacific business segment in 2009. In connection with this examination, we have 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 we 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 during the year December 31, 2015 because the Company does not believe the IRS’s valuation of Asia Pacific business segment assets is appropriate. If we are not able to resolve these proposed adjustments at the IRS examination level, we plan 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 United States have initiated lawsuits against other on-line 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 that we intend for our hotel booking platform to consist 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 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. 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. If we are unable to attract new advertisers in numbers sufficient to grow our business, or if too many advertisers are unwilling to offer products or services with compelling terms to our members or offer favorable payment terms to us, we may sell less advertising, and our operating results will be adversely affected. For example, we may lose advertisers due to market conditions or performance, such as our recent loss of revenue from certain online booking engines, airlines and vacation packagers. We may not add enough additional revenue, such as hotel revenue from Getaways or the hotel booking platform, in order to replace the lost revenue. Furthermore, the new revenue may cost more to generate compared to the costs that the lost revenue required to generate, thereby adversely impacting our operating results.

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

Existing advertisers may shift from one advertising service (e.g. Top 20) to another (e.g. Local Deals, Getaways or the hotel booking platform). These shifts between advertising services by advertisers could result in no incremental revenue or less revenue than in previous periods depending on the amount purchased by the advertisers, and in particular with Local Deals, Getaways and the 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 capabilities, 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 member refunds 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, we are selling vouchers on behalf of the merchants directly to our members and 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, brand value and potentially affecting our results of operations. In addition, negative publicity and member sentiment generated as a result of fraudulent or deceptive conduct by our merchants or advertisers 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 of 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.

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 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 year ended December 31, 2015, our cash and cash equivalents decreased by $20.3 million to $35.1 million, of which $22.6 million was held outside the U.S. in certain of our foreign operations. We intend to continue to grow our business and fund our current operations using cash on hand. However, this may not be sufficient to meet our needs, including the payments required to settle various commitments and contingencies, as described under Note 5 and 6 to the accompanying consolidated financial statements. We may not be able to obtain financing on commercially reasonable terms, or at all.

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

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

Our business may be sensitive to recessions.

The demand for online advertising may be linked to the level of economic activity and employment in the U.S. and abroad. Specifically, our business is primarily dependent on the demand for online advertising from travel and entertainment companies. The most recent recession decreased consumer travel and caused travel and entertainment companies to reduce or postpone their marketing spending generally, and their online marketing spending in particular. Continued or future recessions could have a material adverse effect on our business and financial condition. Moreover, declines or disruptions in the travel industry could adversely affect our launch of 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. Moreover, under payment card rules and our contracts with our card processors, if there is a security breach of payment card information, we could be liable to the payment card issuing banks for their cost of issuing new cards and related expenses. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments, process electronic funds transfers, or facilitate other types of online payments, and our business and results of operations could be adversely affected. If one or more of these contracts are terminated and we are unable to replace them on similar terms, or at all, it could adversely affect our results of operations.

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

United States generally accepted accounting principles are subject to interpretation by the Financial Accounting Standards Board, or FASB, the American Institute of Certified Public Accountants, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. In 2014, the FASB issued a new accounting standard related to revenue recognition which 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 Europe decreased 8% in 2015 compared to 2014, and our operations in Europe generated an operating income before tax of $3.9 million and $5.8 million in 2015 and 2014, respectively. We intend to continue adding a significant number of members in selected countries in which we operate as we believe this is one of the factors that will allow us to increase our advertising rates and increase our revenues in Europe.

If we incur losses from our operations in the future, these losses may not have any recognizable tax benefit, which is the case for Asia Pacific business. We expect that this would have a material negative impact on our net income and cash flows. Any of these developments 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:

- 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;
- currency exchange rate fluctuations;
- risks related to government regulation; and
- potentially adverse tax consequences.

Moreover, fluctuations in currency exchange rates can impact our revenues. For example, foreign currency movements relative to the U.S. dollar have negatively impacted our revenues from our operations in Europe. 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 $9.5 million, $7.9 million and $5.6 million on online marketing initiatives relating to member acquisition for years ended December 31, 2015, 2014 and 2013 and expect to continue to spend significant amounts to acquire additional 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 that began in 2008 or the recent terrorist attacks in France have a negative impact on the travel industry. We are not in a position to evaluate the net effect of these circumstances on our

business. 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.

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 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. We compete with companies like Groupon and LivingSocial that sell vouchers for deals from local businesses such as spas, hotels and restaurants. 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. Google has introduced its hotel search product, which negatively impacted our ability to efficiently purchase Google hotel search traffic to drive our Search product revenues. In addition, we compete for traffic acquisition with many companies and we are subject to higher prices to acquire this traffic, which drives our Search revenue in particular. We regularly reduce our traffic acquisition for our Search products if we believe the acquisition costs are too high for us to remain profitable. When we reduce our traffic acquisition spending it negatively impacts our Search revenue. 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. During 2015, there were several changes in executive management, as further described in previously filed 2015 Form 8-Ks, including the resignation of our CEO, Mr. Loughlin, who was replaced in January 2016 by Mr. Holger Bartel as Chairman and Global CEO, the resignation of Simon Talling-Smith who served as President, Products and Emerging Businesses and the promotion of Mr. Stitt to the role of President, North America.
We may not be able to access third party technology upon which we depend.
We use data technology and software products from third parties including Microsoft and ITA Software. Technology from our current or other vendors may not continue to be available to us on commercially reasonable terms, or at all. Moreover, to the extent an airline does not provide content to ITA Software or third party data providers, or to us, and we cannot obtain the content, we may face additional costs (including legal costs) and the financial results of Fly.com could be negatively affected. If we are unable to continue to display travel data from multiple airline carriers, it would reduce the breadth of our query results on Fly.com and the number of travelers using our services could decline, resulting in a loss of revenues and a decline in our operating results. Fly.com depends on access to information related to airline schedules and fares and, to the extent our travel service providers no longer provide such information, Fly.com’s business and results of operations could be harmed. Our business will suffer if we are unable to access this

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.

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 resources, 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 excess assets.

- impairment of goodwill and other assets acquired.

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

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

Risks Related to the Market for our Shares

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

The trading price of our common stock has been and may continue to be subject to wide fluctuations. During the twelve months ended March 14, 2016, the closing price of our common stock on the NASDAQ Global Select Market ranged from $6.71 to $13.96. 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 Capital Inc. As of December 31, 2015, Azzurro is the Company's largest stockholder, holding approximately 51.2% 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 Getaways vouchers and are successful, we may become subject to fines and penalties and incur additional costs. In addition, if federal or state laws require that the face value of our vouchers have a minimum expiration period beyond the period desired by a merchant for its promotional program, or no expiration period, this may affect the willingness of merchants to issue vouchers in jurisdictions where these laws apply. For unredeemed vouchers, similar laws in other jurisdictions require us or merchants to honor the face value of vouchers sold, after the redemption period. For example, in Germany, certain consumer protection laws require us to refund consumers for approximately four years after the purchase date for the amount of the face value of purchased vouchers which remains unredeemed at the end of the redemption period. 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 Getaways.

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

In certain states and foreign jurisdictions, our Local Deals and 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.

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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, Getaway and planned 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, 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. 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. 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 Inc. 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 Inc. 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.

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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 Inc. 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 consolidated financial statements include a charge for payments under this voluntary program in general and administrative expenses of $1,000 for the year ended December 31, 2015.

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

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

Various federal laws, such as the Bank Secrecy Act and the USA PATRIOT Act and foreign laws and regulations, such as the European Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, impose certain anti-money laundering requirements on companies that are financial institutions or that provide financial products and services. For these purposes, financial institutions are broadly defined to include money services businesses such as money transmitters, check cashers and providers of prepaid access cards. Examples of anti-money laundering requirements imposed on financial institutions include customer identification and verification programs, suspicious activity monitoring and reporting, record retention policies and procedures and transaction reporting. We do not believe that we are a financial institution subject to these laws and regulations based, in part, upon the closed loop nature and other characteristics of vouchers and our role with respect to the distribution of vouchers to members. However, the Financial Crimes Enforcement Network, a division of the U.S. Department of the Treasury tasked with implementing the requirements of the Bank Secrecy Act, recently issued final rules regarding the scope and requirements for non-bank parties involved in stored value or prepaid access cards, including obligations on sellers or providers of "prepaid access". Under the final rule, providers or sellers of closed loop vouchers, such as those offered through the Local Deals and Getaways program, 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 auditors may not be able to certify 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 auditors 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 have identified areas of internal controls that may need improvement and have instituted remediation efforts where necessary. In addition, the changes in our internal controls related to the Asia Pacific business, which we acquired in August 2015, are subject to an allowed first-year exemption for acquired

businesses. 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 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

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

Item 3. Legal Proceedings

The information set forth under “Note 5 - Commitments and Contingencies” to the accompanying consolidated financial statements included in Part II, Item 8 of this report is incorporated herein by reference.

Item 4. Mine Safety Disclosure

Not applicable.

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PART II

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

Market Information

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

	High	Low
2015:		
Fourth Quarter	$10.10	$7.65
Third Quarter	$12.53	$8.07
Second Quarter	$13.96	$9.39
First Quarter	$12.16	$8.58
2014:		
Fourth Quarter	$15.86	$12.17
Third Quarter	$19.60	$15.50
Second Quarter	$23.48	$17.09
First Quarter	$24.75	$20.91

On March 14, 2016, the last reported sales price of our common stock on the NASDAQ Global Select Market was $8.16 per share.

As of March 14, 2016, there were approximately 194 stockholders of record of our shares.

Dividend Policy

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

Sales of Unregistered Securities

There were no unregistered sales of equity securities during fiscal year 2015.

Repurchases of Equity Securities

We repurchased 212,000 shares of our equity securities during the three months ended December 31, 2015.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Shares that May Yet be Purchased Under the Programs (1)
October 1, 2015 - October 31, 2015	—	—	—	268,000
November 1, 2015 - November 30, 2015	—	$—	—	268,000
December 1, 2015 - December 31, 2015	212,000	$8.49	212,000	56,000
	212,000		212,000	

(1) In July 2012, the Company announced a stock repurchase program authorizing the repurchase of up to 1,000,000 shares of the Company's outstanding common stock. As of December 31, 2013, 971,000 shares were repurchased and therefore there were 29,000 shares remaining to be repurchased under this program. 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, and therefore there were 268,000 shares remaining to be repurchased under this program as of December 31, 2014. During the three months ended December 31, 2015, the Company repurchased 212,000 shares of common stock and therefore 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.

Performance Graph

The following graph compares, for the dates specified, the cumulative total stockholder return for Travelzoo, the NASDAQ Stock Market (U.S. companies) Index (the “NASDAQ Market Index”), and the Standard & Poor's 500 Publishing Index (the “S&P 500 Publishing”). Measurement points are the last trading day of each of the Company's fiscal years ended December 31, 2010, December 31, 2012, December 31, 2013, December 31, 2014, and December 31, 2015. The graph assumes that $100 was invested on December 31, 2010 in the Common Stock of the Company, the NASDAQ Market Index and the S&P 500 Publishing and assumes reinvestment of any dividends. The stock price performance on the following graph is not indicative of future stock price performance.

Measurement Point	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Travelzoo Inc.	$ 100	$ 59.40	$ 45.89	$ 51.52	$ 30.50	$ 20.23
NASDAQ Market Index	$ 100	$ 98.20	$ 113.82	$ 157.44	$ 178.53	$ 188.75
S&P 500 Publishing	$ 100	$ 111.22	$ 139.51	$ 224.61	$ 215.61	$ 203.64

Item 6. Selected Consolidated Financial Data

The selected consolidated financial data set forth below for the years ended December 31, 2015, 2014 and 2013 are derived from our audited consolidated financial statements. The selected consolidated financial data set forth below for the years ended December 31, 2012 and 2011 represent unaudited consolidated financial statements presented on a basis consistent with those for years ended December 31, 2015, 2014 and 2013. The financial results for Travelzoo Inc. have been retrospectively adjusted to include the financial results of Asia Pacific in the current and prior periods as though the transaction occurred at the beginning of each period presented. See Note 13 to the accompanying consolidated financial statements for further information related to the acquisition of the Travelzoo Asia Pacific business. The following selected consolidated financial data is qualified in its entirety by, and should be read in conjunction with, “Management's Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and the notes thereto included elsewhere herein.

Consolidated Statement of Operations Data:

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share data)				
Revenues	$141,716	$153,240	$170,633	$162,159	$156,032
Income from operations	$7,146	$17,810	$1,161	$21,843	$10,256
Net income (loss)	$10,864	$13,062	$(6,582)	$14,456	$(1,390)
Net income (loss) per share - basic	$0.74	$0.88	$(0.43)	$0.91	$(0.09)
Net income (loss) per share - diluted	$0.74	$0.88	$(0.43)	$0.91	$(0.09)
Shares used in per share calculation - basic	14,722	14,768	15,269	15,866	16,315
Shares used in per share calculation - diluted	14,722	14,809	15,269	15,901	16,315

Consolidated Balance Sheet Data:

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
Cash and cash equivalents	$35,128	$55,417	$68,668	$65,005	$40,909
Working capital	$16,046	$36,259	$29,194	$42,358	$28,824
Total assets	$68,579	$93,307	$119,440	$103,722	$72,128
Stockholders' equity	$21,387	$35,827	$30,096	$43,583	$35,730

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

The information in this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based upon current expectations, assumptions, estimates and projections about Travelzoo and our industry. These forward-looking statements are subject to the many risks and uncertainties that exist in our operations and business environment that may cause actual results, performance or achievements of Travelzoo to be different from those expected or anticipated in the forward-looking statements. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as "may", "will", "should", "estimates", "predicts", "potential", "continue", "strategy", "believes", "anticipates", "plans", "expects", "intends", a 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 Inc. (the “Company”, or “Travelzoo”) is a global media commerce company. We inform over 28 million members in Asia Pacific, Europe and North America, as well as millions of website users, about the best travel and entertainment deals available from thousands of companies. Our deal experts source, 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 websites (travelzoo.com, travelzoo.ca, travelzoo.co.uk, travelzoo.de, travelzoo.es, travelzoo.fr, cn.travelzoo.com, travelzoo.co.jp, travelzoo.com.au, travelzoo.com.hk, travelzoo.com.tw, among others), the Travelzoo Top 20 e-mail newsletter, and the Newsflash e-mail alert service. We operate SuperSearch, a pay-per-click travel search tool, and the Travelzoo Network, a network of third-party websites that list deals published by Travelzoo. Our Travelzoo websites include our 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. We also operate Fly.com, a travel search engine that allows users to quickly and easily find the best prices on flights from hundreds of airlines and online travel agencies.

On August 20, 2015 we acquired the Travelzoo Asia Pacific business (“Asia Pacific”), which includes the Travelzoo businesses in Australia, China, Hong Kong, Japan, Taiwan, and Southeast Asia. This business was independently operated by Azzurro Capital Inc. ("Azzurro"), under a licensing agreement with Travelzoo Inc. Azzurro was the majority stockholder of the Travelzoo Asia Pacific business. Travelzoo Inc. accounted for this transaction as a common control transaction and change in reporting entity. The financial results for Travelzoo Inc. have been retrospectively adjusted to include the financial results of Asia Pacific in the current and prior periods as though the transaction occurred at the beginning of the each period presented. The Asia Pacific assets and liabilities have been combined with Travelzoo Inc. at their carrying values as though the transaction occurred at the beginning of each period presented. The Asia Pacific transaction proceeds were reflected as an equity transaction, included in retained earnings, during the period the transaction occurred, which was in the year ended December 31, 2015. See Note 13 to the accompanying consolidated financial statements for further information on the acquisition of Asia Pacific.

Certain prior period statement of operations amounts have been reclassified to conform to the current period presentation primarily due to the Company's allocation of facilities costs to all of its operating activities and separate disclosure of product development costs. See Note 1 to the accompanying unaudited condensed consolidated financial statements for further information.

More than 2,000 companies use our services, including Air New Zealand, Apple Vacation, British Airways, Cathay Pacific Airways, Expedia, Fairmont Hotels and Resorts, Hawaiian Airlines, InterContinental Hotels Group, Interstate Hotel & Resorts, Lufthansa, Key Tours International, Liberty Travel, Princess Cruises, Singapore Airlines, Solar Tours, Starwood Hotels & Resorts Worldwide, Travelocity, United Airlines, Vacation Express and Virgin Atlantic.

We have three operating segments based on geographic regions: Asia Pacific, Europe and North America. Asia Pacific consists of our operations in Australia, China, Hong Kong, Japan, Taiwan, and Southeast Asia. Europe consists of our operations in France, Germany, Spain, and the U.K. North America consists of our operations in Canada and the U.S. For the year ended December 31, 2015, Asia Pacific operations were 8% and European operations were 30% of revenues, respectively. Financial information with respect to our business segments and certain financial information about geographic areas appears in Note 12 to the accompanying consolidated financial statements.

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

How We Generate Revenues

Our revenues are advertising revenues, consisting primarily of listing fees paid by travel, entertainment and local businesses to advertise their offers on Travelzoo’s media properties. Listing fees are based on audience reach, placement, number of listings, number of impressions, number of clicks, number of referrals, or percentage of the face

value of vouchers sold. Insertion orders are typically for periods between one month and twelve months and are not automatically renewed. Merchant agreements for Local Deals and Getaway advertisers are typically for twelve months and are not automatically renewed. We have three separate groups of our advertising products: Travel, Search 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, 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 Search category of revenue includes comparison shopping tools for consumers to quickly and easily compare airfares, hotel and car rental prices and includes SuperSearch and Fly.com products. The revenues generated from these products are based upon a fee for clicks delivered to the advertisers or a fee for clicks delivered to advertisers that resulted in revenue for advertisers (i.e. successful clicks). We recognize revenue upon delivery of the clicks or successful clicks.

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. The introduction of competing services and changing search algorithms by search engines such as Google, Yahoo! and Microsoft which may reduce the level or quality of Internet traffic to our services, in particular our Search products, SuperSearch and Fly.com, the competitive market pricing of voucher-based offerings may lead to us reducing our take rate (i.e., our commission) in order to maintain or grow the number of quality deals and merchants we are seeking. For example, the consolidation of the airline industry reduced our revenues generated from this sector, the reduction of capacity in the airline industry reduced demand to advertise for excess capacity, and the introduction of new voucher-based products offered by competitors impacted our ability to sell our existing advertising products. 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. In response to declining Search product revenue, which includes SuperSearch and Fly.com products, the Company is continuously reviewing the performance of these products, which has and will result in reduced traffic acquisition spend for these products and may result in merging the products, discontinuing or replacing one or both of them. Challenges with traffic acquisition from search engines and poor monetization on mobile devices have led to continued declines in Search revenue. Given these factors impacting our Search products, revenue from our Search products are expected to decline.

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 will increase if the number of searches performed on Fly.com increases because we pay a fee based on the number of searches performed on Fly.com. 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 member refunds 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, we recently 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 the presentation of our offerings to our audience. We expect our efforts on developing our product

and services will continue to be 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 Inc. 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, 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 the introduction of Fly.com in 2009, 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.

	Year Ended December 31,		
	2015	2014	2013
Revenues	100.0 %	100.0 %	100.0 %
Cost of revenues	13.3	12.5	10.8
Gross profit	86.7	87.5	89.2
Operating expenses:			
Sales and marketing	55.8	54.5	53.1
Product development	8.8	7.4	5.2
General and administrative	17.1	18.9	17.3
Unexchanged promotional shares	—	(4.9)	12.9
Total operating expenses	81.7	75.9	88.5
Income from operations	5.0	11.6	0.7
Other income (loss)	(0.9)	0.1	—
Income before income taxes	4.1	11.7	0.7
Income taxes	(3.5)	3.2	4.5
Net income (loss)	7.6 %	8.5 %	(3.8)%

Operating Metrics

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

	Years Ended December 31,		
	2015	2014	2013
Asia Pacific			
Total members	3,484,000	3,533,000	3,598,000
Average cost per acquisition of a new member	$2.46	$0.64	$0.50
Revenue per member (2)	$3.02	$3.08	$3.29
Revenue per employee (3)	$114	$92	$112
Mobile application downloads	563,000	355,000	329,000
Social media followers	383,000	366,000	353,000
Europe			
Total members	7,860,000	7,347,000	6,768,000
Average cost per acquisition of a new member	$3.43	$3.53	$2.19
Revenue per member (2)	$5.73	$6.93	$7.26
Revenue per employee (3)	$287	$297	$299
Mobile application downloads	1,419,000	1,192,000	814,000
Social media followers	595,000	494,000	393,000
North America			
Total members	17,184,000	16,843,000	16,506,000
Average cost per acquisition of a new member	$2.16	$2.09	$1.41
Revenue per member (2)	$5.28	$5.77	$6.96
Revenue per employee (3)	$383	$340	$398
Mobile application downloads	2,734,000	2,312,000	1,653,000
Social media followers	2,250,000	1,809,000	1,483,000
Consolidated			
Total members (1)	28,390,000	27,667,000	26,821,000
Average cost per acquisition of a new member	$2.62	$2.55	$1.58
Revenue per member (2)	$5.12	$5.71	$6.56
Revenue per employee (3)	$300	$275	$314
Mobile application downloads	4,716,000	3,859,000	2,796,000
Social media followers	3,228,000	2,669,000	2,229,000

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

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

(3) Annual revenue divided by number of employees at the end of the year.

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 booking platform. Search revenue includes SuperSearch and Fly.com. Local revenue includes Local Deals vouchers and entertainment offers (vouchers and direct bookings).

	Year Ended December 31,		
	2015	2014	2013
Asia Pacific			
Travel	$9,355	$9,308	$9,788
Search	34	100	230
Local	1,294	1,667	2,055
Total Asia Pacific revenues	$10,683	$11,075	$12,073
Europe			
Travel	$33,603	$35,847	$34,112
Search	2,396	3,009	3,539
Local	6,133	7,119	8,388
Total Europe revenues	$42,132	$45,975	$46,039
North America			
Travel	$56,054	$59,104	$63,534
Search	15,427	15,888	21,548
Local	17,420	21,198	27,439
Total North America revenues	$88,901	$96,190	$112,521
Consolidated			
Travel	$99,012	$104,259	$107,434
Search	17,857	18,997	25,317
Local	24,847	29,984	37,882
Total revenues	$141,716	$153,240	$170,633

Asia Pacific

Asia Pacific revenues decreased $392,000 or 4% in 2015 compared to 2014. This decrease was primarily due to a $758,000 negative impact from foreign currency movements relative to the U.S. dollar and the decrease in Local revenues offset by the increase in Travel revenues. The decrease in Local revenues of $285,000 was primarily due to the decreased number of Local Deals vouchers sold. The increase in Travel revenues of $700,000 was primarily due to the increased number of e-mails sent.

Asia Pacific revenues decreased $1.0 million or 8% in 2014 compared to 2013. This decrease was primarily due to a $481,000 negative impact from foreign currency movements relative to the U.S. dollar and a decrease in Local revenues. The decrease in Local revenues of $341,000 was primarily due to the decreased number of Local Deals vouchers sold.

Europe

Europe revenues decreased $3.8 million or 8% in 2015 compared to 2014. This decrease was primarily due to the $4.9 million negative impact from foreign currency movements relative to the U.S. dollar and the decrease in Local revenues offset by the increase in Travel revenues. The decrease in Local revenues of $371,000 was primarily due to the decreased number of Local Deals vouchers sold. The increase in Travel revenue of $1.7 million was primarily due to the increased number of emails sent and paid clicks.

Europe revenues decreased $64,000 or 0.1% in 2014 compared to 2013. This decrease was primarily due to a decrease in Local and Search revenues offset by an increase in Travel revenues and a $1.7 million positive impact from foreign currency movements relative to the U.S. dollar. The decrease in Local revenues of $1.6 million was primarily due to the decreased number of Local Deals vouchers sold. The decrease in Search revenue of $711,000 was primarily due to the decreased number of clicks that generate revenue as a result of decreased spending on traffic acquisition. The increase in Travel revenues of $597,000 was primarily due to an increase in revenues from travel publications due to an increased number of e-mails delivered.

North America

North America revenues decreased $7.3 million or 8% in 2015 compared to 2014. This decrease was primarily due to the decrease in Local and Travel revenues. The decrease in Local revenues of $3.8 million was primarily due to the decreased number of Local Deals vouchers sold. The decrease in Travel revenue of $3.1 million was primarily due to the decreased number of Getaway vouchers sold and paid clicks. The North America revenue decrease includes a $871,000 negative impact from foreign currency movement relative to the U.S. dollar.

North America revenues decreased $16.3 million or 15% in 2014 compared to 2013. This decrease was primarily due to the decrease in Local, Search and Travel revenues. The decrease in Local revenues of $6.2 million was primarily due to the decreased number of Local Deals vouchers sold. The decrease in Search revenue of $5.7 million was primarily due to the decreased number of clicks that generate revenue as a result of decreased spending on traffic acquisition. The decrease in Travel revenue of $4.4 million was primarily due to the decreased number of Getaway vouchers sold and paid clicks. The North America revenue decrease includes a $541,000 negative impact from foreign currency movement relative to the U.S. dollar.

For 2015, 2014 and 2013, 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, fees we pay related to user searches on Fly.com, amortization of capitalized website development costs, credit card fees, certain estimated member refunds 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 $18.8 million, $19.2 million and $18.5 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Cost of revenue decreased $350,000 in 2015 compared to 2014. This decrease was primarily due to a $892,000 decrease in Local Deals and Getaway costs including a $335,000 decrease in member refunds, a $217,000 decrease in fees we paid related to user searches on Fly.com offset by a $830,000 increase in payments made to third-party partners of the Travelzoo Network.

Cost of revenue increased $697,000 in 2014 compared to 2013. This increase was primarily due to a $685,000 increase in payments made to third-party partners of the Travelzoo Network, a $434,000 increase in salary and employee related expenses due to headcount increase for hotel booking platform customer service, a $200,000 increase in professional service expenses offset by a $827,000 decrease in fees we paid related to user searches on Fly.com.

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, and public relations expenses. Sales and marketing expenses were $79.0 million, $83.5 million and $90.6 million for 2015, 2014 and 2013, respectively. Advertising expenses accounted for 33%, 26% and 29%, respectively, of total sales and marketing expenses and consisted primarily of online advertising, which we refer to as traffic acquisition cost and member acquisition costs. The goal of our advertising was to acquire new members for our e-mail products, increase the traffic to our websites and increase brand awareness.

Sales and marketing expenses decreased $4.5 million in 2015 compared to 2014. The decrease was primarily due to a $4.6 million decrease in salary and employee related expenses due in part to a decrease in headcount, a $1.0 million planned decrease in Search traffic acquisition costs offset by a $1.7 million increase in member acquisition costs. The increase in member acquisition cost was intended to drive future growth, increase the reach of our audience, both in terms of the size of our audience and from growing sources such as mobile devices and social media.

Sales and marketing expenses decreased $7.1 million in 2014 compared to 2013. The decrease was primarily due to a $7.2 million planned decrease in Search traffic acquisition costs and a $3.4 million decrease in salary and employee related expenses offset by a $2.3 million increase in member acquisition cost. The increase in member acquisition cost was intended to drive future growth, increase the reach of our audience, both in terms of the size of our audience and from growing sources such as mobile devices and social media.

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 $12.5 million, $11.3 million and $8.8 million for 2015, 2014 and 2013, respectively.

Product development expenses increased $1.2 million in 2015 compared to 2014. The increase was primarily due to a $1.0 million increase in professional service expenses due in part to the development of our hotel booking platform capabilities and enhancement to our website and mobile applications.

Product development expenses increased $2.5 million in 2014 compared to 2013. The increase was primarily due to a $2.1 million increase in salary and employee related expenses due in part to an increase in headcount.

General and Administrative

General and administrative expenses consist primarily of compensation for administrative, executive, fees for professional services, rent, bad debt expense, amortization of intangible assets, and general office expense. General and administrative expenses were $24.2 million, $29.0 million and $29.6 million for 2015, 2014 and 2013, respectively.

General and administrative expenses decreased $4.8 million in 2015 compared to 2014. The decrease was primarily due to a $3.7 million decrease in salary and employee related expenses due in part to a decrease in headcount and professional services costs.

General and administrative expenses decreased $589,000 in 2014 compared to 2013. The decrease was primarily due to a $545,000 decrease in salary and employee related expenses.

Unexchanged Promotional Shares

On April 21, 2011, the Company entered into an agreement with the State of Delaware resolving all claims relating to a previously-announced unclaimed property review. The primary issue raised in the preliminary findings from the review, received by the Company on April 12, 2011, concerned the shares of Travelzoo which have not been claimed by former shareholders of Travelzoo.com Corporation following a 2002 merger, as previously disclosed in the Company's report on Form 10-K. In the preliminary findings under the unclaimed property review, up to 3.0 million shares were identified as "demandable" under Delaware escheat laws. While the Company continues to take the position that such shares were a promotional incentive and were issuable only to persons who establish their eligibility as shareholders, the Company determined that it was in its best interest to promptly resolve all claims relating to the unclaimed property review. Under the terms of the agreement, the Company made a $20.0 million cash payment to the State of Delaware in April 2011 and received a complete release of those claims from the State of Delaware. The $20.0 million payment was recorded as an expense in the three months ended March 31, 2011.

Since March 2012, the Company became subject to unclaimed property reviews by most of the other states in the U.S. that relate primarily to the unexchanged promotional shares, which were not covered by the settlement and release by the State of Delaware. During the three months ended March 31, 2012, the Company recorded a $3.0 million charge related to this unexchanged promotional merger shares contingency.

In October 2013, the Company entered into settlement agreements with 35 additional states to resolve those states' claims related to similar unclaimed property audits. The multi-state settlement relates to approximately 700,000 additional shares of the Company that were not claimed by residents of those states following the merger, which those states claimed were subject to escheat. While the Company disputes the states' claims, the Company determined that it was in its best interest to resolve the disputes and settle with 35 of the states. The remaining states, which were not included in the multi-state settlement as of October 2013, had potential claims on approximately 400,000 additional shares that were not claimed by residents in those states following the merger. During the three months ended September 30, 2013, the Company recorded a $22.0 million charge related to the settlements it entered into and for potential future settlements with the remaining states. During the year ended December 31, 2014, the Company released a $7.6 million of the reserve related to the completion of settlements with certain states for unclaimed property disputes in connection with unexchanged promotional shares. During the year ended December 31, 2015, the Company settled with the remaining states and made cash payments of $3.7 million to the settled states after completion of the required due diligence. See Note 5 to the accompanying consolidated financial statements for further information on the unexchanged promotional shares contingency.

Other Income (loss)

Other income (loss) consisted primarily of foreign exchange transactions gains and losses, interest income earned on cash, cash equivalents and restricted cash as well as interest expense. Other income (loss) was $(1.2) million, $91,000 and $(25,000) for 2015, 2014 and 2013, respectively. Other income decreased $1.3 million from 2014 to 2015. This decrease was primarily due to a $1.1 million foreign exchange transactions losses. Other income increased $116,000 from 2013 to 2014. This increase was primarily due to foreign exchange transactions gains.

Income Taxes

Our income is generally taxed in the U.S., Canada and U.K. Our income tax provision reflect federal, state and country statutory rates applicable to our worldwide income, adjusted to take into account expenses that are treated as having no recognizable tax benefit. Income tax expense (benefit) was $(5.0) million, $4.8 million and $7.7 million for 2015, 2014 and 2013, respectively. Our effective tax rate was (84)%, 27% and 679% for 2015, 2014 and 2013, respectively.

Our effective tax rate decreased for the year ended December 31,2015 compared to the year ended December 31, 2014, due primarily to the recognition of an $8.4 million tax benefit related to the unexchanged promotional shares after a lapse of certain statute of limitations, which decreased the Company's effective tax rate by 143%. Our effective tax rate decreased for the year ended December 31,2014 compared to the year ended December 31, 2013, due to the treatment of the $7.6 million release of reserve for the unexchanged promotional shares as having no recognizable tax impact, which decreased the Company's effective tax rate by 20%. For the year ended December 31, 2013, the $22.0 million expense for the unexchanged promotional shares was treated as having no recognizable tax benefits, which increased the Company's effective tax rate by 646%. We expect that our effective tax rate in future periods may

fluctuate depending on the geographic mix of our worldwide taxable income, total amount of expenses representing payments to former stockholders, losses or gains incurred by our operations in Asia Pacific, Canada and Europe, statutory tax rate changes that may occur and the need for valuation allowances on certain tax assets, if any.

As of December 31, 2015, the Company has a valuation allowance of approximately $6.9 million related to foreign net operating loss carryforwards ("NOL") of approximately $29.6 million for which it is more likely than not that the tax benefit will not be realized. If not utilized, the foreign net operating loss carryforwards begin to expire in 2016. The amount of the valuation allowance represented an increase of approximately $509,000 over the amount recorded as of December 31, 2014, and was due to the increase in foreign operating losses.

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 $7.9 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 $538,000 at December 31, 2015.

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 2009 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 return is currently under examination, including a review of the impact of the sale of Asia Pacific business segment in 2009. In connection with this examination, we have 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 million, excluding interest and state penalties, if any. See Note 6 to the accompanying unaudited condensed consolidated financial statements for further information.

Segment Information

Asia Pacific

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Revenues	$10,683	$11,075	$12,073
Income from operations	$(2,435)	$(3,378)	$(1,444)
Income from operations as a % of revenues	(23)%	(31)%	(12)%

Asia Pacific net revenues decreased $392,000 in 2015 compared to 2014 (see "Revenues" above). Asia Pacific expenses decreased $1.1 million from 2014 to 2015. This decrease was primarily due to a $813,000 decrease in salary and employee related expense due primarily to a decrease in headcount.

Asia Pacific net revenues decreased $1.0 million in 2014 compared to 2013 (see "Revenues" above). Asia Pacific expenses increased $936,000 from 2013 to 2014. This increase was primarily due to a $446,000 increase in salary and employee related expense and a $255,000 increase in professional services expense.

Foreign currency movements relative to the U.S. dollar negatively impacted our local currency loss from our operations in Asia Pacific by approximately $16,000 for 2015. Foreign currency movements relative to the U.S. dollar negatively impacted our local currency loss from our operations in Asia Pacific by approximately $9,000 and $287,000 for 2014 and 2013, respectively.

Europe

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Revenues	$42,132	$45,975	$46,039
Income from operations	$3,871	$5,818	$7,836
Income from operations as a % of revenues	9%	13%	17%

Europe net revenues decreased $3.8 million in 2015 compared to 2014 (see “Revenues” above). Europe expenses decreased $1.9 million from 2014 to 2015. This decrease was primarily due to a $2.1 million decrease in salary and employee related expense due in part to a decrease in headcount, a $1.1 million decrease in search traffic acquisition costs offset by a $1.9 million increase in member acquisition and marketing costs.
Europe net revenues decreased $64,000 in 2014 compared to 2013 (see “Revenues” above). Europe expenses increased $2.0 million from 2013 to 2014. This increase was primarily due to a $1.8 million increase in member acquisition costs.

Foreign currency movements relative to the U.S. dollar negatively impacted our local currency income from our operations in Europe by approximately $41,000 for 2015. Foreign currency movements relative to the U.S. dollar positively impacted our local currency income from our operations in Europe by approximately $325,000 for 2014. Foreign currency movements relative to the U.S. dollar negatively impacted our local currency income from our operations in Europe by approximately $55,000 for 2013.
North America

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Revenues	$88,901	$96,191	$112,520
Income from operations	$5,710	$7,787	$16,769
Income from operations as a % of revenues	6 %	8 %	15 %

North America net revenues decreased $7.3 million in 2015 compared to 2014 (see “Revenues” above). North America expenses decreased $5.2 million from 2014 to 2015. This decrease was primarily due to a $5.5 million decrease in salary and employee related expense due in part to a decrease in headcount offset by a $1.0 million increase in member acquisition costs.
North America net revenues decreased $16.3 million in 2014 compared to 2013 (see “Revenues” above). North America expenses decreased $7.3 million from 2014 to 2013. This decrease was primarily due to a $5.3 million decrease in Search traffic acquisition costs and a $1.3 million decrease in salary and employee related expense.
Liquidity and Capital Resources
As of December 31, 2015, we had $35.1 million in cash and cash equivalents, of which $22.6 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 $55.4 million as of December 31, 2014 primarily as a result of cash used in acquiring the Travelzoo Asia Pacific business, effect of exchange rate changes on cash and cash equivalents, partially offset by cash provided by operating 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.

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Net cash provided by operating activities	$4,192	$(1,587)	$15,963
Net cash used in investing activities	(1,218)	(3,587)	(3,603)
Net cash used in financing activities	(20,012)	(4,693)	(8,452)
Effect of exchange rate changes on cash and cash equivalents	(3,251)	(3,384)	71
Net increase (decrease) in cash and cash equivalents	$(20,289)	$(13,251)	$3,979

Net cash provided by operating activities is net income adjusted for certain non-cash items and changes in assets and liabilities. Net cash provided by operating activities was $4.2 million for 2015, which consisted of a net income of $10.9 million, adjustments for non-cash items of $4.0 million and a $10.6 million decrease in cash from changes in operating assets

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and liabilities. Adjustments for non-cash items primarily consisted of $2.8 million of depreciation and amortization expense on property and equipment and $401,000 of stock-based compensation expense. In addition, the decrease in cash from changes in operating assets and liabilities primarily consisted of $7.9 million in other non-current liabilities, $1.4 million in accrued expenses for unexchanged promotional shares, $3.0 million in accounts payable and accrued expenses offset by $2.4 million in income tax receivable.

Net cash used in operating activities was $1.6 million for 2014, which consisted of a net income of $13.1 million, adjustments for non-cash items of $4.5 million and a $19.2 million decrease in cash from changes in operating assets and liabilities. Adjustments for non-cash items primarily consisted of $982,000 of stock-based compensation expense and $3.0 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 $11.3 million in accrued expenses for unexchanged promotional shares, $7.9 million in accounts payable and $1.1 million in income taxes receivable.

Net cash provided by operating activities was $16.0 million for 2013, which consisted of a net loss of $6.6 million, adjustments for non-cash items of $5.4 million and a $17.2 million increase in cash from changes in operating assets and liabilities. Adjustments for non-cash items primarily consisted of $1.4 million of stock-based compensation expense and $3.1 million of depreciation and amortization expense on property and equipment. In addition, the increase in cash from changes in operating assets and liabilities primarily consisted of $9.7 million in accrued expenses for unexchanged promotional shares, $4.0 million in income taxes receivable and $3.1 million in accounts payable.

Cash paid for income tax net of refunds received in 2015, 2014 and 2013 was $801,000, $4.6 million and $2.6 million, respectively.

Net cash used in investing activities for 2015, 2014 and 2013 was $1.2 million, $3.6 million and $3.6 million, respectively. The cash used in investing activities in 2015 was due primarily due to $1.3 million in purchases of property and equipment offset by $64,000 release of restricted cash. The cash used in investing activities in 2014 was due primarily to $3.8 million in purchases of property and equipment offset by $226,000 release of restricted cash. The cash used in investing activities in 2013 was due primarily to $5.5 million in purchases of property and equipment offset by $1.9 million release of restricted cash.

Net cash used in financing activities for 2015, 2014 and 2013 was $20.0 million, $4.7 million and $8.5 million, respectively. Net cash used in financing activities for the year ended December 31, 2015 was primarily due to cash used in acquiring the Travelzoo Asia Pacific business and repurchases of our common stock. Net cash used in financing activities for the year ended December 31, 2014 and 2013 were primarily to repurchases of our common stock.

See Note 5 to the accompanying unaudited condensed consolidated financial statements for information on the unexchanged promotional share settlements and related cash program.

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 satisfied the conditions to receive shares of Travelzoo.com Corporation, and who failed to submit requests to convert their shares into shares of Travelzoo Inc. 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.

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 our Travelzoo and Fly.com brands. 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 Inc. 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 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 5 — Commitments and Contingencies” to the accompanying consolidated financial statements included in Part II, Item 8 of this report is incorporated herein by reference. Litigation and claims against the Company may result in legal defense costs, settlements or judgments that could have a material impact on our financial condition.

The following summarizes our principal contractual commitments as of December 31, 2015 (in thousands):

	2016	2017	2018	2019	2020	Thereafter	Total
Operating leases	$4,621	$3,895	$3,311	$3,033	$2,633	$7,801	$25,294
Purchase obligations	1,537	882	365	—	—	—	2,784
Total commitments	$6,158	$4,777	$3,676	$3,033	$2,633	$7,801	$28,078

We also have contingencies related to net unrecognized tax benefits, including interest, of approximately $3.0 million as of December 31, 2015. 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 state 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 6 to the accompanying consolidated financial statements for further information.

On August 20, 2015, as part of the Asia Pacific acquisition, Travelzoo (Europe) Limited issued a promissory note to Azzurro with a principal amount of $5.7 million, with a maturity date of August 20, 2018 and the ability to pay off principal prior to this maturity date with no prepayment penalty and a stated interest rate of 7%. In January 2016, the full amount of the loan was paid off by Travelzoo (Europe) Limited.

Critical Accounting Policies

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

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- 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 and, if applicable, the click-throughs have been delivered and the voucher sale has been completed.
- Fixed or determinable fee. We consider the fee to be fixed or determinable if the fee is not subject to refund or adjustment and payment terms are standard.
- 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 net amount billed to the agency. For Local Deals and Getaways 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 Member Refunds

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

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

Allowance for Doubtful Accounts

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

Income Taxes

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

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, the extent that our earnings are indefinitely reinvested outside the U.S. and tax asset valuation allowance determinations, including on certain loss carryforwards. For the years ended December 31, 2015, 2014 and 2013, our effective tax rates were (84)%, 27% and 679%, 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, 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 6 to the accompanying consolidated financial statements for further information.

Loss Contingencies

We are involved in claims, suits, and proceedings arising from the ordinary course of our business. We record a provision for a liability when we believe that it is both probable that a liability has been incurred, and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. Such claim proceedings are inherently unpredictable and subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material impact on our results of operations, financial position and cash flows. We have several known loss contingencies such as our liability to former stockholders of Travelzoo.com Corporation that may be realized as a result of our cash program for these claimants and the 2009 IRS audit claims. Please refer to Note 5 and 6 to the accompanying consolidated financial statements for further information regarding our loss contingencies.

Recent Accounting Pronouncements

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Our operations in Canada expose us to foreign currency risk associated with agreements being denominated in Canadian Dollars. Our operations in Europe expose us to foreign currency risk associated with agreements being denominated in British Pound Sterling and Euros. Our operations in Asia Pacific expose us to foreign currency risk associated with agreements being denominated in Australian dollars, Chinese Yuan, Hong Kong dollar, Japanese Yen and Taiwanese Yuan. We are exposed to foreign currency risk associated with fluctuations of these currencies as the financial position and operating results of our operations in Asia Pacific, Canada and Europe are translated into U.S. dollars for consolidation purposes. We do not use derivative instruments to hedge these exposures. We 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 December 31, 2015, using a modeling technique that measures the change in the fair values arising from a hypothetical 10% adverse movement in the levels of foreign currency exchange rates relative to the U.S. dollar with all other variables held constant. The foreign currency exchange rates we used were based on market rates in effect at December 31, 2015. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in an incremental $149,000 foreign exchange loss for the year ended December 31, 2015.

Item 8. Financial Statements and Supplementary Data

TRAVELZOO INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Travelzoo Inc.:

We have audited the accompanying consolidated balance sheets of Travelzoo Inc. and subsidiaries (Travelzoo) as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. We also have audited Travelzoo's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Travelzoo's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on Travelzoo's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Travelzoo Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Travelzoo maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

Travelzoo acquired Travelzoo Asia Pacific during 2015, and management excluded from its assessment of the effectiveness of Travelzoo’s internal control over financial reporting as of December 31, 2015, Travelzoo Asia Pacific’s internal control over financial reporting associated with total assets of $5.8 million and total revenues of $10.8 million included in the consolidated financial statements of Travelzoo Inc. and subsidiaries as of and for the year ended December 31, 2015. Our audit of internal control over financial reporting of Travelzoo also excluded an evaluation of the internal control over financial reporting of Travelzoo Asia Pacific

/s/ KPMG LLP
Santa Clara, California
March 14, 2016

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

	December 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$35,128	$55,417
Accounts receivable, less allowance for doubtful accounts of $384 and $444 as of December 31, 2015 and 2014, respectively	16,398	16,124
Income tax receivable	1,356	3,756
Deferred tax assets	1,230	1,311
Deposits	782	86
Prepaid expenses and other	2,167	2,676
Total current assets	57,061	79,370
Deposits	501	1,436
Deferred tax assets	1,769	1,432
Restricted cash	1,328	1,393
Property and equipment, net	7,905	9,498
Other assets	15	178
Total assets	$68,579	$93,307
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$23,655	$26,858
Accrued expenses and other	10,140	11,814
Deferred revenue	1,085	1,472
Income tax payable	477	574
Reserve for unexchanged promotional shares	—	1,393
Note payable to related party	5,658	1,000
Total current liabilities	41,015	43,111
Long-term tax liabilities	3,000	10,936
Long-term deferred rent and other	3,177	3,433
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value per share (5,000 shares authorized; none issued)	—	—
Common stock, $0.01 par value (40,000 shares authorized; 14,518 shares issued and outstanding as of December 31, 2015 and 15,801 shares issued,14,730 shares outstanding as of December 31, 2014)	150	163
Treasury stock (at cost, 0 and 1,071 shares at December 31, 2015 and 2014, respectively)	—	(21,517)
Additional paid-in capital	7,759	30,586
Retained earnings	17,386	29,197
Accumulated other comprehensive loss	(3,908)	(2,602)
Total stockholders' equity	21,387	35,827
Total liabilities and stockholders' equity	$68,579	$93,307

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2015	2014	2013
Revenues	$141,716	$153,240	$170,633
Cost of revenues	18,824	19,174	18,477
Gross profit	122,892	134,066	152,156
Operating expenses:			
Sales and marketing	79,042	83,511	90,576
Product development	12,528	11,326	8,828
General and administrative	24,176	29,002	29,591
Unexchanged promotional shares	—	(7,583)	22,000
Total operating expenses	115,746	116,256	150,995
Income from operations	7,146	17,810	1,161
Other income (loss)	(1,242)	91	(25)
Income before income taxes	5,904	17,901	1,136
Income taxes	(4,960)	4,839	7,718
Net income (loss)	$10,864	$13,062	$(6,582)
Basic net income (loss) per share	$0.74	$0.88	$(0.43)
Diluted net income (loss) per share	$0.74	$0.88	$(0.43)
Shares used in computing basic net income (loss) per share	14,722	14,768	15,269
Shares used in computing diluted net income (loss) per share	14,722	14,809	15,269

See accompanying notes to consolidated financial statements.

TRAVELZOO INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Year Ended December 31,		
	2015	2014	2013
Net income (loss)	$10,864	$13,062	$(6,582)
Other comprehensive income (loss):			
Foreign currency translation adjustment	(1,306)	(2,228)	296
Total comprehensive income (loss)	$9,558	$10,834	$(6,286)

See accompanying notes to consolidated financial statements.

TRAVELZOO INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount					
Balances, December 31, 2012	15,362	$163	$(7,898)	$28,106	$23,881	$ (670)	$43,582
Stock-based compensation expense	—	—	—	1,384	—	—	1,384
Repurchase of common stock	(371)	—	(7,764)	—	—	—	(7,764)
Shares fractionalized from reverse/forward stock split, including transaction costs	(643)	(6)	(14,017)	—	—	—	(14,023)
Proceeds from sale of shares fractionalized from reverse/forward stock split, including transaction costs	643	6	14,017	—	(820)	—	13,203
Foreign currency translation adjustment	—	—	—	—	—	296	296
Net loss	—	—	—	—	(6,582)	—	(6,582)
Balances, December 31, 2013	14,991	163	(15,662)	29,490	16,479	(374)	30,096
Stock-based compensation expense	—	—	—	982	—	—	982
Income tax impact from stock options	—	—	—	(186)	—	—	(186)
Repurchase of common stock, net	(261)	—	(5,855)	300	—	—	(5,555)
Proceeds from sale of shares fractionalized from reverse/forward stock split, including transaction costs	—	—	—	—	(344)	—	(344)
Foreign currency translation adjustment	—	—	—	—	—	(2,228)	(2,228)
Net income	—	—	—	—	13,062	—	13,062
Balances, December 31, 2014	14,730	163	(21,517)	30,586	29,197	(2,602)	35,827
Stock-based compensation expense	—	—	—	401	—	—	401
Retirement of treasury stock	—	(13)	23,241	(23,228)	—	—	—
Repurchase of common stock	(212)	—	(1,724)	—	—	—	(1,724)
Proceeds from sale of shares fractionalized from reverse/forward stock split, including transaction costs	—	—	—	—	(102)	—	(102)
Acquisition of Asia Pacific business	—	—	—	—	(22,573)	—	(22,573)
	—	—	—	—	—	(1,306)	(1,306)

Foreign currency translation adjustment							
Net income	—	—	—	—	10,864	—	10,864
Balances, December 31, 2015	14,518	$150	$—	$7,759	$17,386	$ (3,908)	$21,387

See accompanying notes to consolidated financial statements.

TRAVELZOO INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income (loss)	$10,864	$13,062	$(6,582)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	2,788	2,986	3,127
Provision for losses on accounts receivable	(20)	35	(5)
Stock-based compensation	401	982	1,384
Deferred income tax	(269)	303	706
Impairment of software	—	249	—
Net foreign currency effect	480	(16)	176
Changes in operating assets and liabilities:			
Accounts receivable	(789)	(830)	(766)
Income tax receivable	2,371	(1,114)	4,042
Prepaid expenses and other	675	822	(776)
Accounts payable	(1,139)	(7,893)	3,117
Reserve for unexchanged promotional shares	(1,393)	(11,333)	9,726
Accrued expenses and other	(1,681)	52	1,414
Income tax payable	(161)	608	(6)
Other non-current liabilities	(7,935)	500	406
Net cash provided by (used in) operating activities	4,192	(1,587)	15,963
Cash flows from investing activities:			
Purchases of property and equipment	(1,282)	(3,813)	(5,510)
Release of restricted cash	64	226	1,907
Net cash used in investing activities	(1,218)	(3,587)	(3,603)
Cash flows from financing activities:			
Payment for the acquisition of the Asia Pacific business	(16,974)	—	—
Payment of loan to related party	(3,250)	—	—
Proceeds from loan from related party	2,224	1,000	—
Increase in bank overdraft	44	341	
Decrease in bank overdraft	(385)	—	—
Repurchase of common stock	(1,569)	(5,555)	(7,764)
Reverse/forward stock split, including transaction costs	(102)	(479)	(688)
Net cash used in financing activities	(20,012)	(4,693)	(8,452)
Effect of exchange rate changes on cash and cash equivalents	(3,251)	(3,384)	71
Net increase (decrease) in cash and cash equivalents	(20,289)	(13,251)	3,979
Cash and cash equivalents at beginning of year	55,417	68,668	64,689
Cash and cash equivalents at end of year	$35,128	$55,417	$68,668
Supplemental disclosure of cash flow information:			
Cash paid for income taxes, net	$801	$4,606	$2,609
Cash paid for interest	$128	—	—
Note payable for the acquisition of the Asia Pacific business	$5,658	—	—
Funds held by transfer agent for settlement of reverse/forward stock split	—	—	$13,558
Payable to shareholders for reverse/forward stock split	—	—	$13,668
Leasehold improvements funded by landlord	—	$624	$705

See accompanying notes to consolidated financial statements.

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TRAVELZOO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies
(a) The Company and Basis of Presentation
Travelzoo Inc. (the “Company” or “Travelzoo”) is a global media commerce company. 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, 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 websites (travelzoo.com, travelzoo.ca, travelzoo.co.uk, travelzoo.de, travelzoo.es, travelzoo.fr, cn.travelzoo.com, travelzoo.co.jp, travelzoo.com.au, travelzoo.com.hk, travelzoo.com.tw, among others), the Travelzoo Top 20 e-mail newsletter, the Newsflash e-mail alert service, the SuperSearch pay-per-click travel search tool, and the Travelzoo Network, a network of third-party websites that list travel deals published by Travelzoo. Our Travelzoo websites include 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. We also operate Fly.com , a travel search engine that allows users to quickly and easily find the best prices on flights from hundreds of airlines and online travel agencies.
Ralph Bartel, who founded Travelzoo and who is a Director of the Company is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro Capital Inc. ("Azzurro"). As of December 31, 2015, Azzurro is the Company's largest stockholder, holding approximately 51.2% of the outstanding shares.
On August 20, 2015 we acquired the Travelzoo Asia Pacific business (“Asia Pacific”), which includes the Travelzoo businesses in Australia, China, Hong Kong, Japan, Taiwan, and Southeast Asia. This business was independently operated by Azzurro Capital Inc. under a licensing agreement with Travelzoo Inc. Azzurro was the majority stockholder of the Travelzoo Asia Pacific business. Travelzoo Inc. accounted for the acquisition as a common control transaction and change in reporting entity. The financial results for Travelzoo Inc. have been retrospectively adjusted to include the financial results of Asia Pacific in the current and prior periods as though the transaction occurred at the beginning of each period presented. The Asia Pacific assets and liabilities have been combined with Travelzoo Inc. at their carrying values as though the transaction occurred at the beginning of each period presented. The Asia Pacific transaction proceeds are reflected as an equity transaction, included in retained earnings, during the period the transaction occurred, which was in the year ended December 31, 2015. See Note 13 to the accompanying unaudited condensed consolidated financial statements for further information on the acquisition of Asia Pacific.
Certain prior period statement of operations amounts have been reclassified to conform to the current period presentation primarily due to the Company's allocation of facilities costs to all of its operating activities and separate disclosure of product development costs as shown below (in thousands):

	Year Ended December 31,	
	2014	2013
Cost of revenues	$378	$144
Sales and marketing	8,814	8,738
Product development	11,091	8,649
General and administrative	(20,283)	(17,531)
	$—	$—

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, including the recently acquired Asia Pacific subsidiaries reflected in the current and prior periods. All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Revenue Recognition

The Company's revenue consists primarily of advertising sales. Advertising revenues are principally derived from the sale of advertising in Asia Pacific, Europe and North America on the Travelzoo website, in the Travelzoo Top 20 e-mail newsletter, in Newsflash, from SuperSearch, from the Travelzoo Network, and from Fly.com. The Company also generates revenue from the sale of vouchers through our Local Deals and Getaway e-mail alert services and providing hotel bookings.

Advertising revenues are recognized 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. The Company evaluates each of these criteria as follows:

- Evidence of an arrangement. The Company considers 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 or the voucher sale has been completed, as applicable.
- Fixed or determinable fee. The Company considers the fee to be fixed or determinable if the fee is not subject to refund or adjustment and payment terms are standard.
- Collection is deemed reasonably assured. The Company conducts 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 it is expected 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 condition, bankruptcy filing, or previously billed amounts that are past due. If it is determined that collection is not reasonably assured, then revenue is deferred and recognized 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.

The Company recognizes revenue for fixed-fee advertising arrangements ratably over the term of the insertion order as described below, with the exception of Travelzoo Top 20 or Newsflash insertions, which are recognized upon delivery. 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 recognizes revenue for the period based on elements delivered during the period. 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, number of emails sent or number of referrals generated during the period.

Insertion orders that include fixed-fee advertising are invoiced upon acceptance of the insertion order and on the first day of each month over the term of the insertion order, with the exception of Travelzoo Top 20 or Newsflash listings, which are invoiced upon delivery. Insertion orders that include variable-fee advertising are invoiced at the end of the month. The Company's standard terms state that in the event that Travelzoo fails to publish advertisements as specified in the insertion order, the liability of Travelzoo to the advertiser shall be limited to, at Travelzoo's sole discretion, a pro rata refund of the advertising fee, the placement of the advertisements at a later time in a comparable position, or the extension of the term of the insertion order until the advertising is fully delivered. The Company believes that no significant obligations exist after the full delivery of advertising.

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

For Local Deals and Getaways 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 then revenue is recognized upon booking.

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(c) Reserve for Member Refunds

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

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

(d) Allowance for Doubtful Accounts

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.

(e) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ materially from those estimates.

(f) Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with remaining maturities of less than three months on the date of purchase.

(g) Property and Equipment

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

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

(h) Advertising Costs

Advertising costs are expensed as incurred. Online advertising is expensed as incurred over the period the advertising is displayed. Advertising costs amounted to $25.6 million, $20.8 million and $27.8 million for years ended December 31, 2015, 2014 and 2013, respectively.

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(i) Income Taxes

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

(j) Impairment of Long-Lived Assets

The Company accounts for long-lived assets in accordance with the accounting standard relating to impairment of long-lived assets, which requires an impairment loss to be recognized on assets to be held and used if the carrying amount of a long-lived asset group is not recoverable from its undiscounted cash flows. The amount of the impairment loss is measured as the difference between the carrying amount and the fair value of the asset group. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. During the year ended December 31, 2014, the Company recorded a charge to write down the value of certain internally developed software applications that were no longer determined to have alternative use for $249,000. No impairment loss was recognized during years ended December 31, 2015 and 2013.

(k) Stock-Based Compensation

The Company accounts for its employee stock options under the fair value method, which requires stock-based compensation to be estimated using the fair value on the date of grant using an option-pricing model. The value of the portion of the award that is expected to vest is recognized as expense over the related employees' requisite service periods in the Company's consolidated statements of operations. Total stock-based compensation for the years ended December 31, 2015, 2014 and 2013 was $401,000, $982,000 and $1.4 million, respectively. See Note 9 to the accompanying consolidated financial statements for a further discussion on stock-based compensation.

(l) Foreign Currency

All foreign subsidiaries use the local currency of their respective countries as their functional currency. Assets and liabilities are translated into U.S. dollars at exchange rates prevailing at the balance sheet dates. Revenues, costs and expenses are translated into U.S. dollars at average exchange rates for the period. Gains and losses resulting from translation are recorded as a component of accumulated other comprehensive income (loss).

Realized gains and losses from foreign currency transactions are recognized as gain or loss on foreign currency in the consolidated statements of operations.

(m) Certain Risks and Uncertainties

The Company's cash, cash equivalents and accounts receivable are potentially subject to concentration of credit risk. Cash and cash equivalents are placed with financial institutions that management believes are of high credit quality. The accounts receivable are derived from revenue earned from customers located in the U.S. and internationally. As of December 31, 2015 and 2014, the Company had one customer that accounted for 15% and 10%, respectively, of accounts receivable.

(n) Recent Accounting Pronouncements

In April 2014, the FASB issued an accounting standard update that changes the threshold and amends the requirements for reporting discontinued operations. Under the amended guidance, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the component or group of components meets the criteria to be classified as held for sale or when the component or group of components is disposed of by sale or other than by sale. For disposals of individually significant components that do not qualify as discontinued operations, an entity must disclose pre-tax earnings of the disposed component. For public business entities, this guidance is effective prospectively for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. This accounting standard update became effective for the Company on January 1, 2015. The adoption of this accounting standard update did not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

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 on January 1, 2018. Early application is not permitted. This new accounting standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In August 2014, the FASB issued an accounting standard update that requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity's ability to continue as a going concern. This accounting standard update applies to all entities and is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter, with early adoption permitted. This accounting standard update will be effective for the Company on January 1, 2016. The adoption of this accounting standard update is not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In April 2015, the FASB issued ASU 2015-03, Interest- Imputation of Interest, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. This accounting standard update will be effective for the Company on January 1, 2016. The adoption of this standard is not expected to have a material impact on the Company's consolidated statement of financial position.

In November 2015, the FASB issued ASU 2015-17, 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 updated standard is effective for us beginning on January 1, 2017 with early application permitted as of the beginning of any interim or annual reporting period. This accounting standard update will be effective for the Company on January 1, 2017. The adoption of this accounting standard update is not expected to have a material impact on the Company's consolidated statement of financial position.

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. 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. The Company has not yet evaluated nor has it determined the effect of the standard on its ongoing financial reporting.

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):

	Year Ended December 31,		
	2015	2014	2013
Basic net income (loss) per share:			
Net income (loss)	$10,864	$13,062	$(6,582)
Weighted average common shares	14,722	14,768	15,269
Basic net income (loss) per share	$0.74	$0.88	$(0.43)
Diluted net income (loss) per share:			
Net income (loss)	$10,864	$13,062	$(6,582)
Weighted average common shares	14,722	14,768	15,269
Effect of dilutive securities: stock options	—	41	—
Diluted weighted average common shares	14,722	14,809	15,269
Diluted net income (loss) per share	$0.74	$0.88	$(0.43)

For the years ended December 31, 2015, 2014 and 2013, options to purchase 775,000, 125,000 and 475,000 shares of common stock, respectively, were not included in the computation of diluted net loss per share because the effect would have been anti-dilutive.

Note 3: Financial Instruments

The following tables summarize our financial assets measured at fair value on a recurring basis at December 31, 2015 and 2014 (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Balance at December 31, 2015				
Cash	$35,128	$ 35,128	$—	$—
Total cash	$35,128	$ 35,128	$—	$—
Certificates of deposit	$708	$ —	$708	$—
Merchant bank deposit	725	725	—	—
Total restricted cash and cash equivalents	$1,433	$ 725	$708	$—
Balance at December 31, 2014				
Cash	$55,417	$ 55,417	$—	$—
Total cash	$55,417	$ 55,417	$—	$—
Certificates of deposit	$762	$ —	$762	$—
Merchant bank deposit	800	800	—	—
Total restricted cash and cash equivalents	$1,562	$ 800	$762	$—

At December 31, 2015 and 2014, accounts receivable and accounts payable are not measured at fair value; however, the Company believes that the carrying amounts of these assets and liabilities are a reasonable estimate of their fair value because of their relative short maturity. Accounts receivable and accounts payable are categorized as Level 2.

At December 31, 2015 and 2014, the notes payable to related party is not measured at fair value; however, the Company believes that the carrying amounts of these assets and liabilities are a reasonable estimate of their fair value because of their relatively short maturity and subsequent payment.

There have been no transfers and no changes in valuation methods for these assets or liabilities for the years ended December 31, 2015 and 2014.

Note 4: Balance Sheet Components

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

	December 31,	
	2015	2014
Prepaid expenses	$1,630	$2,142
Other current assets	537	534
Total prepaid expenses and other	$2,167	$2,676

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

	December 31,	
	2015	2014
Computer hardware and software	$4,811	$4,516
Office equipment and office furniture	9,306	9,494
Capitalized internal-use software and website development	3,089	3,181
Leasehold improvements	6,064	5,651
	23,270	22,842
Less accumulated depreciation and amortization	(15,365)	(13,344)
Total	$7,905	$9,498

Depreciation expense was $2.2 million, $2.6 million, and $2.5 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Amortization of capitalized internal-use software and website development costs was $308,000, $192,000 and zero for the years ended December 31, 2015, 2014 and 2013, respectively.

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

	Allowance for doubtful accounts	Reserve for member refunds
Balance at January 1, 2013	$506	$999
Additions — charged to costs and expenses, or contra revenue, net	101	940
Deductions — recoveries of amounts previously charged-off	(21)	—
Deductions — write-offs	(150)	(1,126)
Balance at December 31, 2013	436	813
Additions — charged to costs and expenses, or contra revenue, net	170	1,299
Deductions — recoveries of amounts previously charged-off	(118)	—
Deductions — write-offs	(44)	(1,313)
Balance at December 31, 2014	444	799
Additions — charged to costs and expenses, or contra revenue, net	295	776
Deductions — recoveries of amounts previously charged-off	(179)	—
Deductions — write-offs	(176)	(1,045)
Balance at December 31, 2015	$384	$530

Local Deals and Getaway merchant payable included in accounts payable was $19.1 million and $20.6 million, as of December 31, 2015 and 2014, respectively.

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

	December 31,	
	2015	2014
Accrued advertising expense	$1,801	$2,738
Accrued compensation expense	4,373	4,652
Reserve for member refunds	530	799
Other accrued expenses	2,963	3,244
Deferred rent	473	381
Total accrued expenses and other	$10,140	$11,814

Note 5: 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 Inc. 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 Inc. 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 and in 2015 the Company paid the final settlements outstanding.

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 Inc. 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 consolidated financial statements include a charge for payments under this voluntary program in general and administrative expenses of $1,000, $6,000 and $23,000 for the year ended December 31, 2015, 2014 and 2013, respectively.

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.

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 31, 2016 and November 30, 2024. Rent expense was $5.8 million, $6.0 million and $6.2 million for years ended December 31, 2015, 2014 and 2013, respectively. Some of these lease agreements have free or escalating rent payment provisions. We recognize rent expense under such arrangements on a straight line basis.

On August 20, 2015, as part of the Asia Pacific acquisition, Travelzoo (Europe) Limited issued a promissory note to Azzurro with a principal amount of $5.7 million, with a maturity date of August 20, 2018 and the ability to pay off principal prior to this maturity date with no prepayment penalty and a stated interest rate of 7%. In January 2016, the full amount of the loan was paid off by Travelzoo (Europe) Limited.

The Company has purchase commitments which represent the minimum obligations the Company has under agreements with certain vendors. 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 summarizes our principal contractual commitments as of December 31, 2015 (in thousands):

	2016	2017	2018	2019	2020	Thereafter	Total
Operating leases	$4,621	$3,895	$3,311	$3,033	$2,633	$7,801	$25,294
Purchase obligations	1,537	882	365	—	—	—	2,784
Total commitments	$6,158	$4,777	$3,676	$3,033	$2,633	$7,801	$28,078

Note 6: Income Taxes

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

	Year Ended December 31,		
	2015	2014	2013
U.S.	$5,334	$14,363	$(6,964)
Foreign	570	3,538	8,100
	$5,904	$17,901	$1,136

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

	Current	Deferred	Total
	(In thousands)		
Year Ended December 31, 2015			
Federal	$(5,851)	$(238)	$(6,089)
State	337	51	388
Foreign	759	(18)	741
	$(4,755)	$(205)	$(4,960)
Year Ended December 31, 2014			
Federal	$2,124	$294	$2,418
State	670	21	691
Foreign	1,725	5	1,730
	$4,519	$320	$4,839
Year Ended December 31, 2013			
Federal	$5,504	$21	$5,525
State	1,023	(30)	993
Foreign	517	683	1,200
	$7,044	$674	$7,718

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

	Year Ended December 31,		
	2015	2014	2013
Federal tax at statutory rates	$2,083	$7,416	$947
State taxes, net of federal income tax benefit	254	504	694
Expired capital loss carryforward	—	1,534	—
Change of valuation allowance	816	(1,534)	(1,131)
Unexchanged promotional shares	—	(2,654)	7,700
Non-deductible expenses and other	(178)	(427)	(492)
Uncertain tax positions	(7,935)	—	—
Total income tax expense	$(4,960)	$4,839	$7,718

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

	December 31,	
	2015	2014
Deferred tax assets:		
Foreign net operating loss carryforwards	$6,940	$6,431
State income taxes	142	196
Accruals and allowances	783	868
Stock based compensation	1,932	1,803
Deferred revenue	292	255
Deferred rent	636	580
Total deferred tax assets	10,725	10,133
Valuation allowance	(6,940)	(6,431)
Total deferred tax assets net of valuation allowance	3,785	3,702
Deferred tax liabilities:		
U.S. tax on undistributed earnings	(247)	(350)
Property, equipment and intangible assets	(581)	(636)
Total deferred tax liabilities	(828)	(986)
Net deferred tax assets	$2,957	$2,716

As of December 31, 2015, the Company has a valuation allowance of approximately $6.9 million related to foreign net operating loss carryforwards ("NOL") of approximately $29.6 million for which it is more likely than not that the tax benefit will not be realized. If not utilized, the foreign net operating loss carryforwards begin to expire in 2016. The amount of the valuation allowance represented an increase of approximately $509,000 over the amount recorded as of December 31, 2014, and was due to the increase in foreign operating losses. If not utilized, foreign NOL of $17.2 million may be carried forward indefinitely, and foreign NOL of $12.4 million will expire at various times between 2016 and 2024.

United States 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 are approximately $7.9 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 $538,000 at December 31, 2015.

The Company maintains liabilities for uncertain tax positions. The Company's policy is to include interest and penalties related to unrecognized tax positions in income tax expense. To the extent accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction in the overall income tax provision in the period that such determination is made. At December 31, 2015, the Company had approximately $2.1 million in total unrecognized tax benefits, approximately $792,000 in accrued interest, of which $229,000 was accrued in 2015, and approximately $80,000 in accrued penalties, of which none was accrued in 2015. The unrecognized tax benefits of approximately $2.1 million which, if recognized, would favorably affect the Company's effective income tax rate. The decrease in the unrecognized tax benefit for the year ended December 31, 2015 was due primarily to the recognition of a $7.6 million tax benefit related to the unexchanged promotional shares after a lapse of certain statute of limitations. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Unrecognized tax benefits balance at January 1, 2013	$9,365
Increase related to prior year tax positions	—
Decrease related to prior year tax positions	—
Increase related to current year tax positions	38
Settlements	(58)
Lapse of statute of limitations	—
Unrecognized tax benefits balance at December 31, 2013	9,345
Increase related to prior year tax positions	—
Decrease related to prior year tax positions	—
Increase related to current year tax positions	38
Settlements	—
Lapse of statute of limitations	—
Unrecognized tax benefits balance at December 31, 2014	9,383
Increase related to prior year tax positions	584
Decrease related to prior year tax positions	—
Increase related to current year tax positions	11
Settlements	—
Lapse of statute of limitations	(7,850)
Unrecognized tax benefits balance at December 31, 2015	$2,128

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 United Kingdom and Germany for tax years after 2011. 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 our taxes or our 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 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 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 for the year ended December 31, 2015 because the Company does not believe the IRS's valuation of Asia Pacific business segment assets is appropriate. If we are not able to resolve these proposed adjustments at the IRS examination level, we plan to pursue all available administrative and, if necessary, judicial remedies.

Note 7: Accumulated Other Comprehensive Loss

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

	Year Ended December 31,		
	2015	2014	2013
Beginning balance	$(2,602)	$(374)	$(670)
Other comprehensive income due to foreign currency translation, net of tax	(1,306)	(2,228)	296
Ending balance	$(3,908)	$(2,602)	$(374)

There were no amounts reclassified from accumulated other comprehensive income (loss) for the years ended December 31, 2015, 2014 and 2013. Accumulated other comprehensive income (loss) consists of foreign currency translation gain or loss.

Note 8: Employee Benefit Plan

The Company maintains a 401(k) Profit Sharing Plan & Trust (the “401(k) Plan”) for its employees in the United States. The 401(k) Plan allows employees of the Company to contribute up to 80% of their eligible compensation, subject to certain limitations. Since 2006, the Company matches employee contributions up to $1,500 per year. Employee contributions are fully vested upon contribution, whereas the Company’s matching contributions are fully vested after the first year of service. The Company also has various defined contribution plans for its international employees. The Company’s contributions to these benefit plans were approximately $2.1 million, $2.2 million and $2.3 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Note 9: Stock-Based Compensation and Stock Options

The Company accounts for its employee stock options under the fair value method, which requires stock-based compensation to be estimated using the fair value on the date of grant using an option-pricing model. The value of the portion of the award that is expected to vest is recognized on a straight-line basis as expense over the related employees’ requisite service periods in the Company’s consolidated statements of income. Cash flows resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) are classified as financing cash flows. For the years ended years ended December 31, 2015, 2014 and 2013, there were no stock option exercises and no excess tax benefits.

In November 2009, the Company granted to one of its employees options to purchase 300,000 shares of common stock with an exercise price of $14.97, of which 75,000 options vest and become exercisable annually starting on July 1, 2011. The options expire in November 2019. As of December 31, 2015, 300,000 of these options were vested and outstanding.

In January 2012, the Company granted certain executives stock options to purchase 100,000 shares of common stock with an exercise price of $28.98, of which 25,000 options vest and become exercisable annually starting on January 23, 2013. The options expire in January 2022. As of December 31, 2015, 37,500 of the options are vested and 50,000 options are outstanding. During 2014, 25,000 options were canceled and 25,000 options were forfeited upon the departure of an executive and the corresponding compensation expense of $186,000 for the forfeited options was reversed.

In July 2013, the Company granted an executive stock options to purchase 75,000 shares of common stock with an exercise price of $29.58, of which 25,000 options become exercisable annually starting July 1, 2015. The options expire in July 2023. As of December 31, 2015, 25,000 of these options were vested and 25,000 options were outstanding. Due to the planned departure of the executive in 2015, the Company reversed $216,000 compensation expense which was related to previously recognized expense on the portion of the options that were no longer expected to vest.

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 become exercisable quarterly starting March 31, 2016. The options expire in September 2025. As of December 31, 2015, 400,000 options were outstanding and none of these options were vested.

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.

Total stock-based compensation for fiscal years 2015, 2014 and 2013 was $401,000, $982,000 and $1.4 million, respectively.

The Company utilized the Black-Scholes option pricing model to value the stock options granted in 2015, 2013, 2012 and 2009. The Company used an expected life as defined under the simplified method, which is using an average of the contractual term and vesting period of the stock options. The risk-free interest rate used for the award is based on the U.S. Treasury yield curve in effect at the time of grant. The historical volatility was calculated based upon implied volatility of the Company's historical stock prices. The Company used a forfeiture rate of 0%. To the extent the actual forfeiture rate is different from what we have anticipated, stock-based compensation related to these options will be different from our expectations.

The fair value of 2015, 2013 and 2012 stock options was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2015	2013	2012
Weighted-average fair value of options granted per share	$4.42	$18.87	$19.08
Historical volatility	59%	70%	74%
Risk-free interest rate	1.73%	1.70%	1.11%
Dividend yield	—	—	—
Expected life in years	5.75	6.25	6.25

As of December 31, 2015, there was approximately $5,000 of unrecognized stock-based compensation expense related to outstanding 2012 stock options, expected to be recognized over 0.1 years, and approximately $1.6 million of unrecognized stock-based compensation expense related to outstanding 2015 stock options, expected to be recognized over 2.0 years. As of December 31, 2015, there was no unrecognized stock-based compensation expense relating to 2009 and 2013 stock options grants.

Option activities during the years ended December 31, 2013, 2014, and 2015 were as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2013	400,000	$ 18.47	7.43 years	$1,206
Options granted	75,000	$ 29.58		
Outstanding at December 31, 2013	475,000	$ 20.23	6.93 years	$1,905
Options forfeited	(25,000)	$ 28.98		
Options canceled	(25,000)	28.98		
Outstanding at December 31, 2014	425,000	$ 19.20	5.79 years	$—
Option Granted	400,000	8.07		
Options canceled	(50,000)	$ 29.58		
Outstanding at December 31, 2015	775,000	$ 12.78	5.53 years	$120
Exercisable and fully vested at December 31, 2015	362,500	$ 17.43	0.85 years	$—
Outstanding at December 31, 2015 and expected to vest thereafter	412,500	$ 8.70	9.64 years	

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company’s closing stock price on the last trading day of years ended December 31, 2015, 2014 and 2013 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2015, 2014, and 2013. This amount changes based on the fair market value of the Company’s stock. The Company’s policy is to issue shares from the authorized shares to fulfill stock option exercises.

Outstanding options at December 31, 2015 were as follows:

Exercise Price	Shares Outstanding	Options Outstanding Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares Outstanding and Exercisable	Options Exercisable Weighted-Average Remaining Contractual Life
$14.97	300,000	0.25 years	$14.97	300,000	0.25 years
$28.98	50,000	6.07 years	$28.98	37,500	6.07 years
$29.58	25,000	0.25 years	$29.58	25,000	0.25 years
$8.07	400,000	9.75 years	$8.07	—	—

Note 10: Stock Repurchase Program

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

In July 2012, the Company announced a stock repurchase program authorizing the repurchase of up to 1,000,000 shares of the Company’s outstanding common stock. There were 29,000 shares remaining to be repurchased under this program as of December 31, 2013, which were repurchased in 2014.

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, which were recorded as part of treasury stock 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.

Note 11: Reverse/Forward Stock Split

On June 11, 2013, a Special Committee of the Company’s Board of Directors, consisting of three independent directors, unanimously approved a reverse/forward stock split transaction (collectively referred to as the “reverse/forward split”), subject to shareholder approval. The reverse/forward split was intended to reduce the Company’s shareholder account administration costs by reducing the number of its shareholders.

On September 12, 2013, at the Company’s annual shareholders meeting, Travelzoo shareholders voted in favor of the reverse/forward split, with the transaction receiving the votes of both (A) a majority of the issued and outstanding shares of common stock and (B) a majority of the issued and outstanding shares of common stock that are not held or controlled, directly or indirectly, by directors or officers of the Company, including, without limitation, the shares held by Azzurro Capital Inc., our principal stockholder.

On November 6, 2013, the Special Committee approved the execution of the transaction after receiving an opinion from a financial advisor regarding the fairness of the transaction from a financial point of view to the Company's shareholders whose positions, individually considered, consisted of fewer than 25 shares, of the per-share consideration to be received by such shareholders in the reverse/forward split. The Special Committee received legal counsel from Young Conaway Stargatt & Taylor, LLP in connection with its review of the transaction. In addition, the Company received legal counsel from Skadden, Arps, Slate, Meagher & Flom LLP and Bryan Cave LLP in connection with the transaction.

On November 6, 2013, based upon the Special Committee’s approval of the transaction and the receipt of a fairness opinion from the financial advisor, the Company executed the shareholder approved reverse/forward split.

The reverse/forward split transaction consisted of a 1-for-25 reverse stock split of the Company's outstanding common stock, followed immediately by a 25-for-1 forward stock split. Shareholders who held less than 25 shares immediately prior to the reverse stock split received a right to cash payment based on and equal to their resulting fractional interest times the price of a share equal to the higher of (a) the trailing ten day average trading price of the Company’s common stock immediately preceding the consummation date of the reverse/forward split or (b) the average aggregate sales price received in the sale on the open market of the shares resulting from aggregation of the fractionalized interests. Shareholders that held 25 or more shares

of common stock immediately before the reverse/forward split did not receive a right to cash payment; instead these shareholders continued to hold the same number of shares after completion of the reverse/forward split as they held immediately prior. A description of the terms and conditions of the reverse/forward split was set forth in the Company's definitive Proxy Statement for the 2013 annual shareholders meeting filed with the U.S. Securities and Exchange Commission on July 25, 2013.

The reverse/forward split resulted in approximately 643,218 of the Company's outstanding shares being fractionalized. Shareholders holding less than 25 shares of common stock immediately prior to the reverse split did not receive fractional shares in the reverse stock split; instead these shareholders had their shares converted into the right to receive a cash payment in exchange for and in proportion to the fractional share interests resulting from the reverse stock split. To fund the cash payment due to shareholders that held a right to receive cash from the transaction, the fractional share interests were aggregated by the Company's transfer agent, who sold the aggregated shares in the open market following the execution of the transaction.

As of December 31, 2013, the Company completed the sales of the aggregated fractional shares from the reverse/forward split in the open market and the sales proceeds of $13.6 million were held by the Company's transfer agent in anticipation of the payment to be made to the fractionalized shareholders and were included in Funds Held for Reverse/Forward Stock Split on the Company's balance sheet. As of December 31, 2013, the total amount payable of $13.7 million to fractionalized shareholders as a result of the execution of the reverse/forward split was reflected as a Payable to Shareholders for Reverse/Forward Stock Split on the Company's balance sheet.

For the year ended December 31, 2015 and 2014, the Company's retained earnings includes a total adjustment of $102,000 and $344,000, respectively, related to the reverse/forward split, which includes transaction costs. During the year ended December 31, 2014, the Company's transfer agent issued checks amounting to $13.4 million to pay shareholders that held a right to cash in exchange for the fractional shares that were a result of the reverse/forward split. The Company's transfer agent intends to pay $137,000 due to the remaining shareholders that hold a right to cash after receiving the required documentation regarding their physical stock certificates. As of December 31, 2015, the sale proceeds of $137,000 are held by the Company's transfer agent in anticipation of the payment to be made to the fractionalized shareholders and are included in Prepaid expenses and other on the Company's balance sheet. As of December 31, 2015, the total amount payable of $137,000 to fractionalized shareholders as a result of the execution of the reverse/forward split is included in Accrued expenses and other on the Company's balance sheet.

Note 12: 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 income (loss) for making financial decisions and allocating resources. Management believes that segment revenues and operating income (loss) are appropriate measures of evaluating the operational performance of the Company's segments.

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

Year Ended December 31, 2015	Asia Pacific	Europe	North America	Other	Consolidated
Revenues from unaffiliated customers	$10,746	$42,588	$88,382	$—	$ 141,716
Intersegment revenues	(63)	(456)	519	—	—
Total net revenues	$10,683	$42,132	$88,901	—	$ 141,716
Operating income (loss)	$(2,435)	$3,871	$5,710	$—	$ 7,146

Year Ended December 31, 2014	Asia Pacific	Europe	North America	Other (a)	Consolidated
Revenues from unaffiliated customers	$11,160	$46,896	$95,184	$—	$ 153,240
Intersegment revenues	(85)	(921)	1,006	—	—

Total net revenues	$11,075	$45,975	$96,190	—	$ 153,240
Operating income (loss)	$(3,378)	$5,818	$7,787	$7,583	$ 17,810

Year Ended December 31, 2013	Asia Pacific	Europe	North America	Other (a)	Consolidated
Revenues from unaffiliated customers	$12,399	$46,279	$111,955	$—	$ 170,633
Intersegment revenues	(326)	(240)	566	—	—
Total net revenues	$12,073	$46,039	$112,521	—	$ 170,633
Operating income (loss)	$(1,444)	$7,836	$16,769	$(22,000)	$ 1,161

(a) Amount related to unexchanged promotional shares that include a $7.6 million release of reserve and a $22.0 million charge for the years ended December 31, 2014, and 2013, respectively.

As of December 31, 2015	Asia Pacific	Europe	North America	Elimination	Consolidated
Long-lived assets	$369	$899	$6,652	$—	$ 7,920
Total assets	$5,845	$54,452	$71,626	$(63,344)	$ 68,579

As of December 31, 2014	Asia Pacific	Europe	North America	Elimination	Consolidated
Long-lived assets	$491	$1,507	$7,678	$—	$ 9,676
Total assets	$3,510	$40,818	$73,508	$(24,529)	$ 93,307

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

For the years ended December 31, 2015, 2014 and 2013, the Company did not have any customers that accounted for 10% or more of revenue. As of December 31, 2015 and 2014, the Company had one customer that accounted for 15% and 10%, respectively, of accounts receivable. Accounts receivable representing 10% or more of total accounts receivable was related to an advertising technology company that assists us with our Search product traffic monetization by using an traffic auction platform.

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 booking platform. Search revenue includes SuperSearch and Fly.com. Local revenue includes Local Deals vouchers and entertainment offers (vouchers and direct bookings).

	Year Ended December 31,		
	2015	2014	2013
Asia Pacific			
Travel	$9,355	$9,308	$9,788
Search	34	100	230
Local	1,294	1,667	2,055
Total Asia Pacific revenues	$10,683	$11,075	$12,073
Europe			
Travel	$33,603	$35,847	$34,112
Search	2,396	3,009	3,539
Local	6,133	7,119	8,388
Total Europe revenues	$42,132	$45,975	$46,039
North America			
Travel	$56,054	$59,104	$63,534
Search	15,427	15,888	21,548
Local	17,420	21,198	27,439
Total North America revenues	$88,901	$96,190	$112,521
Consolidated			
Travel	$99,012	$104,259	$107,434
Search	17,857	18,997	25,317
Local	24,847	29,984	37,882
Total revenues	$141,716	$153,240	$170,633

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

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

	Year Ended December 31,		
	2015	2014	2013
Revenue			
United States	$83,469	$89,311	$104,650
United Kingdom	27,825	29,301	31,270
Rest of the world	30,422	34,628	34,713
Total revenues	$141,716	$153,240	$170,633

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

	December 31,	
	2015	2014
United States	$6,167	$7,646
Rest of the world	1,753	2,030
Total long lived assets	$7,920	$9,676

Note 13: Related Party Transactions

On August 20, 2015, Travelzoo acquired the Travelzoo Asia Pacific business (“Asia Pacific”), which includes the Travelzoo businesses in Australia, China, Hong Kong, Japan, Taiwan, and Southeast Asia. This business was independently operated by Azzurro Capital Inc. ("Azzurro") under a licensing agreement with Travelzoo Inc. The Company held an option right to acquire Asia Pacific at fair market value as determined by a third party valuation expert. Under the terms of the definitive acquisition agreement, Travelzoo (Europe) Limited, a United Kingdom subsidiary of the Company, was authorized by the Company to exercise the option right to acquire Asia Pacific for a fair market transaction value of $22.6 million, subject to a working capital adjustment, using available cash of $17.0 million and a promissory note of $5.7 million with a maturity date of three years.

The Company’s board of directors established a special committee (the “Special Committee”), consisting of independent and disinterested directors and provided it with the exclusive power and authority to determine whether any potential transaction to acquire Asia Pacific was advisable, fair to and in the best interests of the Company's stockholders other than Azzurro Capital Inc., the principal stockholder of Travelzoo Inc. The Special Committee engaged independent legal counsel and an independent financial advisor, Stout Risius Ross, Inc. (“SRR”). The Special Committee obtained the right to select its own independent financial advisor, SRR, to independently determine the fair market value of Asia Pacific to be used as the option exercise price and received an opinion from SRR regarding the fairness of the Asia Pacific transaction from a financial point of view. SRR determined that $22.6 million represented the fair market value of Asia Pacific to be used as the option exercise price based upon the use of established valuation methodologies. The Special Committee, which was composed solely of independent and disinterested directors, unanimously approved the acquisition of Asia Pacific at the fair market value option exercise price with the assistance of its independent legal and financial advisors.

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. As of December 31, 2015, Azzurro is the Company's largest stockholder, holding approximately 51.2% of the Company's outstanding shares.

Since Azzurro Capital Inc. had a controlling interest in both Travelzoo Inc. and the Travelzoo Asia Pacific business at the time of the transaction and in prior periods, this transaction is accounted for as a common control transaction and a change in reporting entity for the Company. The financial results for Travelzoo Inc. have been retrospectively adjusted to include the financial results of Asia Pacific in the current and prior periods as though the transaction occurred at the beginning of each period presented, including the following adjustments:

	Year Ended December 31,		
	2015	2014	2013
Revenue	$10,774	$11,218	$12,402
Operating Loss	$(2,436)	$(3,382)	$(1,445)
Net Loss	$(3,096)	$(3,288)	$(1,571)
Other Comprehensive Income	$305	$239	$89
Basic and diluted earnings per share	$(0.21)	$(0.22)	$(0.10)

The Asia Pacific assets and liabilities have been combined with Travelzoo Inc. at their carrying values as though the transaction occurred at the beginning of each period presented. At December 31, 2015 and December 31, 2014, Asia Pacific net liabilities, total assets minus total liabilities, were $6.8 million and $4.0 million, respectively.

The Asia Pacific transaction proceeds of $22.6 million were reflected as an equity transaction, included in retained earnings, during the period the transaction occurred, which was in the year ended December 31, 2015.

Travelzoo (Europe) Limited, a United Kingdom subsidiary of the Company, acquired the Asia Pacific business, which include certain customary seller indemnifications, through the acquisition of Travelzoo (Asia) Limited, including its wholly owned subsidiaries, and Travelzoo Japan KK. All significant intercompany accounts and transactions between Travelzoo Inc. and the acquired Asia Pacific entities have been eliminated for all periods presented.

In November 2014, Azzurro provided a loan to Asia Pacific of $1.0 million with a stated interest rate of 8%. There were $1.0 million loans and $5,000 accrued interest due to Azzurro as of December 31, 2014. From January 1, 2015 to August 20, 2015, Azzurro provided loans to the Asia Pacific amounting to $2.2 million with a stated interest rate of 10%. In September 2015, the Company paid the due and outstanding principal loan amount of $3.3 million and accrued interest of $128,000.

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On August 20, 2015, as part of the transaction proceeds Travelzoo (Europe) Limited issued a promissory note to Azzurro with a principal amount of $5.7 million, with a maturity date of August 20, 2018 and the ability to pay off principal prior to this maturity date with no prepayment penalty and a stated interest rate of 7% , which is due and payable on a quarterly basis. Accrued interest for the loans and promissory note outstanding was $267,000 for the year ended December 31, 2015. In January 2016, the full amount of the loan was paid off by Travelzoo (Europe) Limited. On September 28, 2015, Holger Bartel, Executive Chairman and Chairman of the Board of Directors, was granted 400,000 stock options that vest through December 31, 2017 in connection with his appointment to the role of Global Chief Executive Officer. See Note 9 to the accompanying consolidated financial statements for further information.

Note 14: Unaudited Quarterly Information

The following represents unaudited quarterly financial data (in thousands, except per share amounts) for 2015 and 2014:

	Quarter Ended							
	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014
Revenues	$32,051	$33,728	$36,792	39,145	$34,291	$36,307	$39,599	$43,043
Cost of revenues	4,328	4,742	5,208	4,546	4,640	4,813	4,648	5,073
Gross profit	27,723	28,986	31,584	34,599	29,651	31,494	34,951	37,970
Operating expenses:								
Sales and marketing	17,161	19,089	20,715	22,077	20,729	21,570	19,298	21,914
General and administrative	6,270	6,120	5,335	6,451	7,603	7,220	7,139	7,040
Product Development	3,316	2,917	3,206	3,089	2,956	3,108	2,786	2,476
Unexchanged promotional shares	—	—	—	—	(1,833)	(2,250)	(3,500)	—
Total operating expenses	26,747	28,126	29,256	31,617	29,455	29,648	25,723	31,430
Income from operations	976	860	2,328	2,982	196	1,846	9,228	6,540
Other income (expense)	(376)	(202)	(218)	(446)	(348)	95	154	190
Income (loss) before income tax	600	658	2,110	2,536	(152)	1,941	9,382	6,730
Income taxes	165	(8,199)	1,268	1,806	(66)	158	2,266	2,481
Net income (loss)	$435	$8,857	$842	$730	$(86)	$1,783	$7,116	$4,249
Basic net income (loss) per share	$0.03	$0.60	$0.06	$0.05	$(0.01)	$0.12	$0.48	$0.29
Diluted net income (loss) per share	$0.03	$0.60	$0.06	$0.05	$(0.01)	$0.12	$0.48	$0.29

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

None.

Item 9A. Controls and Procedures

As of December 31, 2015, we carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Company's Chief Executive Officer along with the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of December 31, 2015 to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act, including this report, is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and to ensure that information required to be disclosed in such reports is accumulated and communicated to management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, to allow timely decisions regarding required disclosure. For these purposes, "disclosure controls and procedures" means controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. "Disclosure controls and procedures" include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is

accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Except set forth below, during the three months ended December 31, 2015, there were no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15 and 15d-15 under the Securities Exchange Act of 1934) that materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

During 2015, we made certain changes to our internal control over financial reporting related to our acquisition of the Asia Pacific business, which we acquired in August 2015. These changes are subject to a Securities and Exchange Commission allowed first-year exemption for acquired businesses. In addition, we made certain changes to internal control over financial reporting related to our implementation of an updated accounting system.

Management's Report on Internal Control Over Financial Reporting

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

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

Travelzoo's management assessed the effectiveness of Travelzoo's internal control over financial reporting as of December 31, 2015, utilizing the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (2013). The assessment of the effectiveness of Travelzoo's internal control over financial reporting as of December 31, 2015 excluded the assessment of internal controls over financial reporting related to the Travelzoo Asia Pacific business, which was acquired in August 2015, based upon a Securities and Exchange Commission allowed first-year exemption for acquired businesses. Travelzoo Asia Pacific business' total assets of $5.8 million and total revenues of $10.8 million are included in the consolidated financial statements of Travelzoo Inc. as of and for the year ended December 31, 2015. Based on the assessment by Travelzoo's management, subject to the foregoing, Travelzoo determined that its internal control over financial reporting was effective as of December 31, 2015. The effectiveness of Travelzoo's internal control over financial reporting as of December 31, 2015 has been audited by KPMG LLP, Travelzoo's independent registered public accounting firm, as stated in their report which appears in Part II, Item 8 of this Annual Report on Form 10-K.

/s/ HOLGER BARTEL
Holger Bartel
Chairman of the Board and Global CEO

/s/ GLEN CEREMONY
Glen Ceremony
Chief Financial Officer
March 14, 2016

Item 9B. Other Information
Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item is incorporated by reference to Travelzoo's Definitive Proxy Statement for the 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of Travelzoo's fiscal year ended December 31, 2015 and is incorporated herein by reference.

Item 11. Executive Compensation

Information regarding executive compensation and compensation committee interlocks is incorporated by reference to the information in the definitive Proxy Statement relating to our 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015, which is incorporated herein by reference.

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

Information regarding security ownership of certain beneficial owners and management and related stockholder matters is incorporated by reference to the information in the definitive Proxy Statement relating to our 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015, which is incorporated herein by reference.

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

Information regarding certain relationships and related transactions, and director independence is incorporated by reference to the information set forth in the definitive Proxy Statement relating to our 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015, which is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information regarding principal accountant fees and services is set forth in the definitive Proxy Statement relating to our 2016 Annual Meeting of Stockholders, which is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this report:

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

	Page
Report of Independent Registered Public Accounting Firm	51
Consolidated Balance Sheets	52
Consolidated Statements of Operations	53
Consolidated Statements of Comprehensive Income (Loss)	54
Consolidated Statements of Stockholders' Equity	55
Consolidated Statements of Cash Flows	56
Notes to Consolidated Financial Statements	57

(2) Supplementary Consolidated Financial Statement Schedules:

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

(3) Exhibits:

See attached Exhibit Index

SIGNATURES

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

TRAVELZOO INC.

By: /s/ GLEN CEREMONY
Glen Ceremony
Chief Financial Officer

Date: March 14, 2016

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

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

Signatures	Title(s)	Date
/s/ HOLGER BARTEL Holger Bartel	Chairman of the Board of Directors and Global CEO	March 14, 2016
/s/ GLEN CEREMONY Glen Ceremony	Chief Financial Officer and Principal Accounting Officer	March 14, 2016
/s/ RALPH BARTEL Ralph Bartel	Director	March 14, 2016
/s/ MICHAEL KARG Michael Karg	Director	March 14, 2016
/s/ DONOVAN NEALE-MAY Donovan Neale-May	Director	March 14, 2016
/s/ MARY REILLY Mary Reilly	Director	March 14, 2016
/s/ BEATRICE TARKA Beatrice Tarka	Director	March 14, 2016
/s/ CAROLINE TSAY Caroline Tsay	Director	March 14, 2016

EXHIBIT INDEX

Exhibit Number		Description
3.1	—	Certificate of Incorporation of Travelzoo Inc. (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 Inc. 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 Inc. (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*	—	Travelzoo Inc. North America Executive Bonus Plan as Amended and Restated Effective January 1, 2007. (Incorporated by reference to Exhibit 10.1 on Form 8-K (File No. 000-50171), filed April 11, 2007)
10.3	—	Agreement of Lease, effective as of February 1, 2008, between Travelzoo Inc. and 590 Madison Avenue, LLC (Incorporated by reference to Exhibit 10.1 on Form 8-K (File No. 000-50171), filed February 7, 2008)
10.4	—	Asset Purchase Agreement, dated September 30, 2009, by and among Travelzoo Inc., Travelzoo K.K., Azzurro Capital Inc. and a buyer entity to be designated by Azzurro Capital Inc., with Exhibits (Incorporated by reference to Exhibit 10.1 on Form 8-K (File No. 000-50171), filed October 5, 2009)
10.5	—	Asset Purchase Agreement, dated September 30, 2009, by and among Travelzoo Inc., Travelzoo (Asia Pacific) Limited, Azzurro Capital Inc. and a buyer entity to be designated by Azzurro Capital Inc., with Exhibits (Incorporated by reference to Exhibit 10.2 on Form 8-K (File No. 000-50171), filed October 5, 2009)
10.6	—	Option Agreement, dated September 30, 2009, between Travelzoo Inc. and Azzurro Capital Inc. (Incorporated by reference to Exhibit 10.3 on Form 8-K (File No. 000-50171), filed October 5, 2009)
10.7*	—	Employment Agreement between Travelzoo Inc. and Christopher Loughlin dated November 18, 2009 (Incorporated by reference to Exhibit 10.1 on Form 8-K (File No. 000-50171), filed November 23, 2009)

10.8*	—	Nonqualified Stock Option Agreement between Travelzoo Inc. and Christopher Loughlin dated November 18, 2009 (Incorporated by reference to Exhibit 10.2 on Form 8-K (File No. 000-50171), filed November 23, 2009)
10.9*	—	Nonqualified Stock Option Agreement between Travelzoo Inc. and Glen Ceremony dated January 23,2012 (Incorporated by reference to Exhibits 10.1 on Form 8-K (File No. 000-50171), filed March 30, 2012)

10.10*	—	Nonqualified Stock Option Agreement between Travelzoo Inc. and Shirley Tafoya dated January 23,2012 (Incorporated by reference to Exhibits 10.1 on Form 8-K (File No. 000-50171), filed March 30, 2012)
10.11*	—	Employment Agreement, dated August 4, 2011 between Shirley Tafoya and Travelzoo Inc. (Incorporated by reference to Exhibit 10.1 on Form 10-Q (File No. 000-50171), filed November 9, 2010)
10.12*	—	Employment Agreement, dated May 9, 2011 between Glen Ceremony and Travelzoo Inc. Form 8-K (File No. 000-50171), filed May 20, 2011)
10.13*	—	Employment Agreement, dated October 1, 2011 between Holger Bartel and Travelzoo Inc. (Incorporated by reference to Exhibit 10.1 on Form 10-Q (File No. 000-50171), filed October 28, 2011)
10.14*	—	Nonqualified Stock Option Agreement between Travelzoo Inc. and Christopher Loughlin dated July 22, 2013.
10.15*	—	Employment Agreement, amendment effective date January 1, 2013, between Christopher Loughlin and Travelzoo Inc.
10.16*	—	Employment Agreement, amendment effective date August 1, 2013, between Christopher Loughlin and Travelzoo Inc.
10.17*	—	Employment Agreement, amendment effective date January 1, 2013, between Glen Ceremony and Travelzoo Inc.
10.18*	—	Employment Agreement, amendment effective date January 1, 2013, between Shirley Tafoya and Travelzoo Inc.
10.19*	—	Employment Agreement, amendments effective dates July 1, 2012 and January 1, 2013, between Richard Singer and Travelzoo Inc.
10.20*	—	Separation Agreement and General Release, effective date December 13, 2014, between Shirley Tafoya and Travelzoo Inc.
10.21	—	Security Purchase Agreement, dated August 20, 2015, by and among Travelzoo (Europe) Limited, and Travelzoo (Asia Pacific) Inc. with Exhibits (Incorporated by reference to Exhibit 10.1 on Form 8-K (File No. 000-50171), filed August 26, 2015)
10.22*‡	—	Employment Agreement, dated May 1, 2011, between Michael Stitt and Travelzoo Inc.
10.23*‡	—	Employment Agreement addendum, dated May 1, 2011, between Michael Stitt and Travelzoo Inc.
10.24*‡	—	Employment Agreement, dated September 30, 2015, between Michael Stitt and Travelzoo Inc.

10.25*‡	—	Separation Agreement and General Release, dated December 14, 2015, between Simon Talling-Smith and Travelzoo Inc.

10.26*‡	—	Separation Agreement and General Release, effective December 31, 2015, between Christopher Loughlin and Travelzoo Inc.
10.27*‡	—	Employment Agreement, dated June 7, 2014, between Vivian Hong and Travelzoo Inc.
10.28*‡	—	Employment Agreement, dated January 1, 2016, between Vivian Hong and Travelzoo Inc.
10.29*‡	—	Nonqualified Stock Option Agreement between Travelzoo Inc. and Mike Stitt dated March 7, 2016.
10.30*‡	—	Nonqualified Stock Option Agreement between Travelzoo Inc. and Richard Singer dated March 7, 2016.
21.1‡	—	Subsidiaries of Travelzoo Inc.
23.1‡	—	Consent of Independent Registered Public Accounting Firm
24.1	—	Power of Attorney (included on signature page)
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