



NASDAQ: TZOO

**2014 Annual Report**  
**2015 Proxy Statement**

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# TRAVELZOO INC.

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Travelzoo Inc.  
590 Madison Avenue, 37th Floor  
New York, NY 10022

March 6, 2015

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Travelzoo Inc. on May 1, 2015. We will hold the meeting at 590 Madison Avenue, 37th Floor, New York, NY 10022 at 10:00 a.m. local time.

In connection with the meeting, we enclose a notice of the meeting, a proxy statement and a proxy card. Detailed information relating to Travelzoo's activities and operating performance is contained in our 2014 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on February 17, 2015, which is also enclosed. We encourage you to read the Form 10-K.

Stockholders of record as of March 6, 2015 may vote at the Annual Meeting. This proxy statement is first being mailed or furnished to stockholders on or about March 17, 2015.

Your vote is important. Whether or not you plan to attend the Annual Meeting of Stockholders, please vote your shares via mail with the enclosed proxy card. Please note that you can attend the meeting and vote in person, even if you have previously voted by proxy. If you plan to attend the meeting in person, please provide advance notice to Travelzoo by checking the box on your proxy card. In addition, you may provide notice to Travelzoo that you plan to attend in person by delivering written notice to Travelzoo's Corporate Secretary at 800 W. El Camino Real, Suite 275, Mountain View, CA 94040.

If you hold your shares in street name through a bank, broker, or other nominee, please bring identification and proof of ownership, such as an account statement or letter from your bank or broker, for admittance to the meeting. An admission list containing the names of all of those planning to attend will be placed at the registration desk at the entrance to the meeting. You must check in to be admitted.

Travelzoo will make available an alphabetical list of stockholders entitled to vote at the meeting for examination by any stockholder during ordinary business hours at Travelzoo's principal executive offices, located at 590 Madison Avenue, 37th Floor, New York, New York 10022, for ten days prior to the meeting. A stockholder may examine the list for any legally valid purpose related to the meeting.

On behalf of the entire Board of Directors, we look forward to seeing you at the meeting.

Sincerely,

HOLGER BARTEL  
*Chairman of the Board of Directors*

**TRAVELZOO INC.  
590 Madison Avenue  
37th Floor  
New York, New York 10022**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
To Be Held On May 1, 2015**

To the Stockholders of Travelzoo Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Travelzoo Inc., a Delaware corporation, will be held on Friday, May 1, 2015, at 10:00 a.m., local time, at 590 Madison Avenue, 37th Floor, New York, NY 10022, for the following purposes:

- To elect five members of the Company's Board of Directors (the "Board"), each to serve until the 2016 Annual Meeting of Stockholders and until their successors are elected and qualified or until their earlier resignation or removal ("Proposal 1");
- To approve, on an advisory basis, the compensation of the executive officers of the Company ("Proposal 2"); and
- To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement of the Annual Meeting.

Only stockholders of record at 5:00 p.m. Eastern Time on March 6, 2015 may vote at the Annual Meeting. Your vote is important. Whether you plan to attend the Annual Meeting or not, **please cast your vote by completing, dating and signing the enclosed proxy card and returning it via mail to the address indicated.** If you attend the meeting and prefer to vote in person, you may do so even if you have previously voted by proxy.

By Order of the Board of Directors,

TRAVELZOO INC.

GLEN CEREMONY  
*Corporate Secretary*

**PROXY STATEMENT  
FOR THE TRAVELZOO INC.**

**2015 ANNUAL MEETING OF STOCKHOLDERS  
INFORMATION ABOUT THE ANNUAL MEETING**

**Why am I receiving these proxy materials?**

Travelzoo's Board of Directors is soliciting proxies to be voted at the 2015 Annual Meeting of Stockholders. This proxy statement includes information about the issues to be voted upon at the meeting.

Only stockholders of record of our common stock, par value \$0.01 per share (the "Common Stock"), as of 5:00 p.m. Eastern Time on March 6, 2015 (the "record date") will be entitled to notice of, and to vote at, the Annual Meeting. As of the record date, there were 14,730,454 shares of our Common Stock issued and outstanding.

**Where and when is the Annual Meeting?**

The Annual Meeting of Stockholders will take place on May 1, 2015 at 590 Madison Avenue, 37th Floor, New York, NY 10022. The meeting will begin at 10:00 a.m. local time.

**What am I voting on?**

Stockholders will vote on three items:

- A proposal to elect five members of the Company's Board, each to serve until the 2016 Annual Meeting of Stockholders and until their successors are elected and qualified or until their earlier resignation or removal ("Proposal 1");
- A proposal to approve, on an advisory basis, the compensation of the executive officers of the Company ("Proposal 2"); and
- To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement of the Annual Meeting.

**How does the Board recommend that you vote on the proposals?**

The Board recommends that you vote your shares "FOR" Proposal 1 and Proposal 2.

**How many votes do I have?**

You have one vote for each share of our common stock that you owned at the close of business on March 6, 2015, the record date. These shares include:

- Shares held directly in your name as the "stockholder of record" and
- Shares held for you as the beneficial owner through a broker, bank, or other nominee in "street name."

**If I am a stockholder of record, how can I vote my shares?**

Stockholders can vote by proxy or in person, however, granting a proxy does not in any way affect your right to attend the Annual Meeting and vote in person.

**How do I vote by proxy?**

If you are a stockholder of record, you may vote your proxy by mail. If you receive a paper copy of the proxy statement, simply mark the enclosed proxy card, date and sign it, and return it in the postage paid envelope provided. If you receive the proxy statement via e-mail, please print the attached proxy card, date and sign it, and return it via mail to Broadridge Financial Solutions, Inc., 51 Mercedes Way, Edgewood, NY 11717.

If you vote by proxy, the persons named on the card (your "proxies") will vote your shares in the manner you indicate. You may specify whether your shares should be voted for all, some or none of the nominees for director or any other proposals properly brought before the Annual Meeting. If you sign your proxy card and do not indicate specific choices, your shares will be voted "FOR" the election of all nominees for director and "FOR" Proposal 2. If any other matter is properly brought before the meeting, your proxies will vote in accordance with their discretion. At the time of submitting this proxy statement for printing, we knew of no matter that will be acted on at the Annual Meeting other than those discussed in this proxy statement.

If you wish to give a proxy to someone other than the persons named on the enclosed proxy card, you may strike out the names appearing on the card and write in the name of any other person, sign the proxy, and deliver it to the person whose name has been substituted.

### **May I revoke my proxy?**

If you give a proxy, you may revoke it in any one of three ways:

- Submit a valid, later-dated proxy before the Annual Meeting,
- Notify our Corporate Secretary in writing at Travelzoo Inc., Attention: Corporate Secretary, 800 W. El Camino Real, Suite 275, Mountain View, CA 94040 before the Annual Meeting that you have revoked your proxy, or
- Vote in person at the Annual Meeting.

### **How do I vote in person?**

If you are a stockholder of record, you may cast your vote in person at the Annual Meeting.

### **If I hold shares in street name, how can I vote my shares?**

You can submit voting instructions to your broker or nominee. In most instances, you will be able to do this over the Internet or by mail. Please refer to the voting instruction card included in the materials provided by your broker or nominee.

### **What vote is required to approve each proposal?**

Each share of our Common Stock is entitled to one vote with respect to each matter on which it is entitled to vote. Pursuant to our bylaws, our directors are elected by a plurality of the votes cast, which means that the nominees who receive the greatest number of votes will be elected. The affirmative vote of a majority of the shares of the Company's Common Stock present in person or represented by proxy and entitled to vote on the proposal will be considered as the approval, by an advisory vote, of Proposal 2.

In order to have a valid stockholder vote, a stockholder quorum must exist at the Annual Meeting. A quorum will exist when stockholders holding a majority of the outstanding shares of Common Stock are present at the meeting, either in person or by proxy.

Azzurro Capital Inc., whose beneficial owner is Mr. Ralph Bartel, a member of our Board, holds an aggregate of 7,230,538 shares of our Common Stock, representing approximately 49.1% of the outstanding shares, as of March 6, 2015. Azzurro Capital Inc. currently holds a proxy given to it by Mr. Holger Bartel that provides it with a total of 50.4% of the voting power.

All properly executed proxies delivered pursuant to this solicitation and not revoked will be voted at the Annual Meeting as specified in such proxies. As noted above, if no voting instructions are indicated, proxies will be voted as recommended by our Board on all matters, and in the discretion of the proxy holder on any other matters that properly come before the Annual Meeting.

## What is a broker non-vote and how are broker non-votes and abstentions counted?

A broker "non-vote" occurs when a nominee holding shares of Common Stock for the beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. Brokers that have not received voting instructions from their clients cannot vote on their clients' behalf on "non-routine" proposals. The vote on Proposals 1, and 2 are considered "non-routine". Broker non-votes will not have any effect with respect to Proposals 1, and 2, as shares that constitute broker non-votes are not considered entitled to vote but will be counted for the purposes of obtaining a quorum for the Annual Meeting.

Abstentions are counted as "shares present" at the Annual Meeting for purposes of determining the presence of a quorum and with respect to any matters being voted upon at the Annual Meeting. Abstentions will have no effect on the outcome of the election of directors, but with respect to any other proposal an abstention will have the same effect as a vote against such proposal.

## Where can I find the voting results of the meeting?

We intend to announce preliminary voting results at the meeting. We will publish the final results in a report on Form 8-K, which we intend to file within four business days following the Annual Meeting. You can obtain a copy of the Form 8-K by logging on to Travelzoo's investor relations website at [www.travelzoo.com/ir](http://www.travelzoo.com/ir), by calling the Securities and Exchange Commission (the "SEC") at (800) SEC-0330 for the location of the nearest public reference room, or through the EDGAR system at [www.sec.gov](http://www.sec.gov). Information on our website does not constitute part of this proxy statement.

## ELECTION OF DIRECTORS (PROPOSAL 1)

Under Travelzoo's bylaws, the number of directors of Travelzoo is fixed, and may be increased or decreased from time to time, by resolution of the Board of Directors. Each director holds office for a term of one year, until the annual meeting of stockholders next succeeding the director's election and until a successor is elected and qualified or until the earlier resignation or removal of the director. The following individuals have been nominated for election to our Board of Directors, each to serve until the 2016 Annual Meeting of Stockholders and until their successors are elected and qualified or until their earlier resignation or removal.

Following is information about each nominee, including biographical data for at least the last five years. Should one or more of these nominees become unavailable to accept nomination or election as a director, the individuals named as proxies on the enclosed proxy card will vote the shares that they represent for the election of such other persons as the Board may recommend, unless the Board reduces the number of directors. We have no reason to believe that any nominee will be unable or unwilling to serve if elected as a director.

### Nominees for a One-Year Term That Will Expire in 2016:

The ages, principal occupations, directorships held and other information as of March 6, 2015, with respect to our nominees are shown below.

Name	Age	Position
Holger Bartel, Ph.D.	48	Chairman of the Board of Directors
Ralph Bartel, Ph.D.	49	Director
Michael Karg, Ph.D. (1) (2) (3) (4)	43	Director
Donovan Neale-May (1) (3) (4)	62	Director
Mary Reilly (1) (2) (4)	61	Director

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Disclosure Committee
- (4) Member of the Nominating and Corporate Governance Committee



Each of the director nominees listed above, is currently a director of Travelzoo and was elected at the Company's Annual Meeting of Stockholders held on May 9, 2014. Our Board of Directors has determined that each of Mr. Karg, Mr. Neale-May and Ms. Reilly meet the independence requirements of the listing standards of the NASDAQ Stock Market (the "NASDAQ"). The Board of Directors determined that Mr. Ralph Bartel is not independent under the rules of NASDAQ because he is a beneficial owner of Azzurro Capital Inc., which holds approximately 49.1% of our outstanding Common Stock as of March 6, 2015, and Mr. Holger Bartel is not independent under the rules of NASDAQ because he is Ralph Bartel's brother.

*Holger Bartel, Ph.D.*, has served as Executive Chairman since September 2014 and Chairman of the Board of Directors since July 2010. From June 2005 to June 2010, he served as a Director of the Company. Mr. Bartel served as a consultant to the Company from July 2010 through September 2011 and became an employee of the Company serving as Head of Strategy from October 2011 through October 2013. Mr. Bartel served as Chief Executive Officer from October 2008 to June 2010, after serving as Executive Vice President from September 1999 to November 2007. From 1995 to 1998, Mr. Bartel worked as an Engagement Manager at McKinsey & Company in Los Angeles. From 1992 to 1994, Mr. Bartel was a research fellow at Harvard Business School. Mr. Bartel holds a Ph.D. in Economics and an MBA in Finance and Accounting from the University of St. Gallen, Switzerland. He is the brother of Ralph Bartel.

Areas of Holger Bartel's relevant experience: Deep knowledge of Travelzoo's operations, Internet, strategy, management of growth companies, travel, international management.

*Ralph Bartel, Ph.D.*, founded Travelzoo in May 1998 and has served as a Director since July 2010 after serving as Chairman of the Board of Directors from May 1998 to June 2010. Mr. Bartel has served as Chief Talent Officer of the Company since September 2014. From May 1998 to September 2008, Mr. Bartel served as Travelzoo's Chief Executive Officer and President. Mr. Bartel is a professionally trained journalist who also holds a Ph.D. in Communications from the University of Mainz, Germany, a Master's degree in Journalism from the University of Eichstaett, Germany, and a Ph.D. in Economics and an MBA in Finance and Accounting from the University of St. Gallen, Switzerland. He is the brother of Holger Bartel.

Areas of Ralph Bartel's relevant experience: Media, journalism, Internet, finance, start-up experience.

*Michael Karg, Ph.D.*, is Chief Executive Officer of Razorfish International, an international interactive marketing and technology services company. Mr. Karg advises clients across multiple industries to identify and define next generation digital services and products across digital media, mobile, and technology platforms. From September 2010 to May 2013, Mr. Karg served in the roles as President EMEA (from September 2011) and COO International for Razorfish and Digitas International. During his tenure he built and orchestrated the Razorfish and Digitas International network capabilities, enabling delivery of break-through award-winning client work across geographies. Mr. Karg originally joined Digitas in 2000 where he served in various capacities until May 2013. Mr. Karg currently serves on the board of directors of Razorfish (Hong Kong) Company, Limited and Razorfish Consulting (Shanghai) Co., Limited, and e-Crusade Holding Company Limited. From August 2012 to July 2013 he served as the Chairman of the Board of Razorfish Germany. Mr. Karg holds a Master's degree in Finance and Accounting and a doctorate in Business Administration from the University in St. Gallen, Switzerland. Between 1999 and 2000 Mr. Karg was a visiting research fellow at Harvard University.

Areas of Mr. Karg's relevant experience include international management, marketing, digital media, corporate strategy and development.

*Donovan Neale-May* has served as a Director since February 1999. Mr. Neale-May is the president and managing partner of GlobalFluency, Inc., a global organization of independent marketing and communication firms with 70 offices in over 40 countries. He is also the managing partner and co-founder of the SABLE Accelerator (South African Business Link to Experts). Since 1987, Mr. Neale-May has been managing and running his own digital marketing and communications agency operating from Silicon Valley and New York. Previously, Mr. Neale-May held senior positions with marketing, promotions and public relations agencies, such as Ogilvy & Mather, in Silicon Valley, New York, London and Los Angeles. During his 30 years as an international marketing and brand strategist, Mr. Neale-May has consulted with over 300 leading multi-nationals, new venture starts and emerging growth companies. Mr. Neale-May is the founder and executive director of the Chief Marketing Officer (CMO) Council, a global affinity network of more than 6,000 senior marketing and branding executives controlling some \$300 billion in aggregated annual marketing spend. Mr. Neale-May is a journalism graduate of Rhodes University in South Africa and serves on the University's board of governors. He also chairs the Rhodes University Trust, USA. In addition, Mr. Neale-May serves as an adjunct professor at Seoul National University in South Korea.

Areas of Mr. Neale-May's relevant experience: Brand strategy, public relations, marketing, international management.

*Mary Reilly* is a chartered accountant and a retired partner of Deloitte LLP, a large international accounting and consulting firm. From August 2002 to June 2013, Ms. Reilly served as a partner of Deloitte LLP in various capacities including the Products & Services division of Deloitte, working with organizations operating in a wide range of international industries, including recruitment, retail businesses, media, business services, manufacturing, professional practices and charities in the United Kingdom. Ms. Reilly headed up Deloitte's Outsourcing Unit where she was responsible for the finance function and business advisory projects for a number of U.K. and international businesses and was a leading partner in Deloitte's Charities and Not for Profit Group; she was also the Corporate Responsibility leader for the London Audit Practice of Deloitte and was a member of the firm's Diversity Leadership Team. Ms. Reilly has also held several non-executive directorships, including Chair of the Audit and Risk Committee for Department of Transport in the U.K. since June 2013, Chair of the Audit and Risk Committee for Crown Agents LTD since February 2013, board member of London Development Agency from 2000 to 2008 and board member of London 2012 LTD, a company established to run London's Olympic bid from 2003 to 2006.

Ms. Reilly holds a bachelor's degree in history from the University College London. She did a postgraduate course at London Business School and is a Qualified Chartered Accountant in the United Kingdom.

Areas of Ms. Reilly's relevant experience: Accounting, finance, international management and non-executive directorships.

### **Required Vote**

Our Certificate of Incorporation, as amended, does not authorize cumulative voting. Delaware law and our bylaws provide that directors are to be elected by a plurality of the votes of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on the election of directors. This means that the five candidates receiving the highest number of affirmative votes at the Annual Meeting will be elected as directors. Only shares that are voted in favor of a particular nominee will be counted toward that nominee's achievement of a plurality. Shares present at the Annual Meeting that are not voted for a particular nominee or shares present by proxy where the stockholder properly withheld authority to vote for such nominee will not be counted toward that nominee's achievement of a plurality. Thus, abstentions and broker non-votes will have no effect on the election of directors. Proxies cannot be voted for a greater number of persons than the number of nominees named.

### **Board of Directors' Recommendation**

**THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THE ELECTION OF THE FIVE DIRECTOR NOMINEES NAMED ABOVE.**

The Board of Directors believes that each director nominee possesses the qualities and experience a member of Travelzoo's Board should possess. The Board of Directors seeks out, and the Board of Directors is comprised of, individuals whose background and experience complement those of other Board members.

## CORPORATE GOVERNANCE

### Board Meetings and Committees

The Board of Directors has appointed an Audit Committee, a Compensation Committee, a Disclosure Committee and a Nominating and Corporate Governance Committee. Below is a table indicating the membership of each of the Audit Committee, Compensation Committee, and Disclosure Committee and how many times the Board of Directors and each such committee met in fiscal year 2014. Each of Mr. Holger Bartel, Mr. Ralph Bartel, Mr. Karg, Mr. Neale-May, and Ms. Reilly attended at least 75 percent of the total number of meetings of the Board of Directors and of the committees on which he or she serves during the period such persons served.

	<b>Board</b>	<b>Audit</b>	<b>Compensation</b>	<b>Disclosure</b>	<b>Nominating and Corporate Governance</b>
Mr. Holger Bartel	Chair				
Mr. Ralph Bartel	Member				
Mr. Neale-May	Member	Member		Chair	Chair
Mr. Michael Karg	Member	Member	Chair	Member	Member
Ms. Mary Reilly	Member	Chair	Member		Member
<b>Number of 2014 Meetings</b>	<b>4</b>	<b>4</b>	<b>1</b>	<b>4</b>	—

The Company does not require that directors attend the Annual Meeting.

#### *Audit Committee*

The Audit Committee's primary responsibilities are to oversee and monitor (i) the integrity of Travelzoo's financial statements, (ii) the qualifications and independence of our independent registered public accounting firm, (iii) the performance of our independent registered public accounting firm and internal audit staff, and (iv) the compliance by Travelzoo with legal and regulatory requirements. A complete description of the committee's responsibilities is set forth in its written charter. A copy of the written charter can be found in Appendix A of our 2008 proxy statement. The Audit Committee is responsible for appointing the independent registered public accounting firm and is directly responsible for the compensation and oversight of the work of our independent registered public accounting firm. The Audit Committee is composed solely of independent directors as defined in the listing standards of the NASDAQ. The Board has determined that Ms. Mary Reilly qualifies as an audit committee financial expert within the meaning of the regulations of the Securities and Exchange Commission.

#### *Compensation Committee*

The Compensation Committee reviews and approves the compensation and benefits for the Company's executive officers and directors, and makes recommendations to the Board of Directors regarding such matters. The Compensation Committee also approves the Company's non-equity incentive plans. The Compensation Committee further reviews and discusses with management the Compensation Discussion and Analysis section of this proxy statement. The Report of the Compensation Committee is included herein. The Company is not required to have a Compensation Committee charter since it is a "Controlled Company" under NASDAQ Rule 5615(c), on account of the stock ownership by Azzurro Capital Inc. and the proxy given to Azzurro Capital Inc. by Mr. Holger Bartel.

#### *Disclosure Committee*

The Disclosure Committee's primary responsibilities are (i) to design, establish and evaluate controls and other procedures that are designed to ensure the accuracy and timely disclosure of information to the SEC and investment community and (ii) to review and supervise preparation of all SEC filings, press releases and other broadly disseminated correspondence.

## ***Nominating and Corporate Governance Committee***

The Nominating Committee assists the Board in identifying qualified individuals to become directors, makes recommendations to the Board concerning the size, structure and composition of the Board and its committees, monitors the process to assess the Board's effectiveness and is primarily responsible for oversight of corporate governance. In evaluating potential nominees to the Board, the Nominating Committee considers, among other things, independence, character, ability to exercise sound judgment, age, demonstrated leadership, skills, including financial literacy, and experience in the context of the needs of the Board. The Nominating Committee considers candidates proposed by shareholders and evaluates them using the same criteria as for other candidates. The Nominating Committee recommended to the full Board each of the current nominees for election to the Board.

### **The Board's Role in Risk Oversight**

The full Board oversees enterprise risk as part of its role in reviewing and overseeing the implementation of the Company's strategic plans and objectives. The risk oversight function is administered both in full Board discussions and in individual committees that are tasked by the Board with oversight of specific risks. On a regular basis, the Board and its committees receive information and reports from management on the status of the Company and the risks associated with the Company's strategy and business plans. In addition, the Audit Committee reviews the Company's risk assessment and risk management policies and procedures at least annually, including steps taken to monitor and control such exposures. The Board believes the continuity of Board membership, as well as the independent directors constituting a majority of the Board and separation of the roles of Chairman and Chief Executive Officer, encourage open discussion and assessment of the Company's ability to manage its risks.

### **Code of Ethics**

We have adopted a code of ethics that applies to our Chief Executive Officer and our Chief Financial Officer, who also serves as our principal accounting officer. This code of ethics is posted on our website located at [corporate.travelzoo.com/governance](http://corporate.travelzoo.com/governance). A copy of the code of ethics is also available in print to stockholders and interested parties without charge upon written request delivered to our Corporate Secretary at Travelzoo Inc., 800 W. El Camino Real, Suite 275, Mountain View, CA 94040.

### **Communications with Directors**

The board has established a process to receive communications from stockholders. Stockholders and other interested parties may contact any member (or all members) of the board, or the non-management directors as a group, any board committee or any chair of any such committee by mail. To communicate with the Board of Directors, any individual directors or any group or committee of directors, correspondence should be addressed to the Board of Directors or any such individual directors or group or committee of directors by either name or title. All such correspondence should be sent "c/o Corporate Secretary" at Travelzoo Inc., 800 W. El Camino Real, Suite 275, Mountain View, CA 94040.

All communications received as set forth in the preceding paragraph will be opened by the Corporate Secretary for the sole purpose of determining whether the contents represent a message to our directors. Any contents that are not in the nature of advertising, promotions of a product or service, patently offensive material or matters deemed inappropriate for the Board of Directors will be forwarded promptly to the addressee. In the case of communications to the board or any group or committee of directors, the Corporate Secretary will make sufficient copies of the contents to send to each director who is a member of the group or committee to which the correspondence is addressed.

### **Director Compensation**

Directors of the Company or its subsidiaries are entitled to receive certain retainers and fees. In 2014, there were no adjustments to the director compensation policy, except the Board of Directors set up the retainer for Chairman of the Board in 2014. The retainers and meeting fees are as follows:

- Annual Chairman of the Board retainer - \$175,000;
- Annual board member retainer - \$50,000;
- Annual Audit Committee chair retainer - \$30,000;
- Fee for attendance of a board meeting - \$1,680;
- Fee for attendance of an Audit Committee meeting - \$2,800;
- Fee for attendance of a Disclosure Committee meeting - \$1,680; and
- Fee for attendance of a Compensation Committee meeting - \$2,800.

We reimburse directors for out-of-pocket expenses incurred in connection with attending meetings.

Mr. Ralph Bartel chose not to receive any compensation for his services as a director. The following table shows compensation information for Travelzoo's directors for fiscal year ended December 31, 2014.

Name	Fees Earned or Paid in Cash (\$)	Total (\$)
Mr. Holger Bartel	231,720	231,720
Mr. Ralph Bartel	—	—
Mr. Neale-May	74,640	74,640
Mr. Michael Karg	77,440	77,440
Ms. Mary Reilly	100,720	100,720

### Certain Relationships and Related Party Transactions

The Company maintains policies and procedures to ensure that our directors, executive officers and employees avoid conflicts of interest. Our Chief Executive Officer and Chief Financial Officer are subject to our Code of Ethics and each signs the policy to ensure compliance. Our Code of Ethics requires our leadership to act with honesty and integrity, and to fully disclose to the Audit Committee any material transaction that reasonably could be expected to give rise to an actual or apparent conflict of interest. The Code of Ethics requires that our leadership obtain the prior written approval of the Audit Committee before proceeding with or engaging in any conflict of interest.

Our Audit Committee or a special committee consisting of independent directors ("Special Committee"), with the assistance of legal counsel, reviews all related party transactions involving the Company and any of the Company's principal shareholders or members of our board of directors or senior management or any immediate family member of any of the foregoing. A general statement that the Audit Committee may review related party transactions is set forth in our audit committee charter, which was attached as Appendix A to our proxy statement for the 2008 Annual Meeting of Stockholders which has been filed with the SEC. While we have no written policy, when a potential related party transaction is identified, the Audit Committee or a Special Committee will consider relevant facts and circumstances surrounding each related party transaction and any matters the committee deems appropriate. If the Audit Committee or a Special Committee determines that any such related party transaction creates a conflict of interest situation or would require disclosure under Item 404 of Regulation S-K, as promulgated by the SEC, the transaction must be approved by the committee prior to the Company entering into such transaction or ratified thereafter. Transactions or relationships previously approved by the Audit Committee or a Special Committee in existence prior to the formation of the committee do not require approval or ratification.

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, 2014, Azzurro is the Company's largest stockholder, holding approximately 49.1% of the Company's outstanding shares. Azzurro Capital Inc. currently holds a proxy given to it by Mr. Holger Bartel that provides it with a total of 50.4% of the voting power.

In 2009, the Company sold its Asia Pacific operating segment to Travelzoo (Asia) Limited and Travelzoo Japan K.K., subsidiaries of Azzurro Capital Inc. There is a reciprocal revenue-sharing and hosting agreement among the Azzurro Capital Inc. entities operating the Travelzoo business in Asia Pacific and the Company related to cross-selling audiences and hosting and development services by the Company, which were entered into in connection with the sale of Asia Pacific business segment. The fees generated by the Company under these agreements amounted to \$595,000, \$707,000 and \$547,000 for the years ended December 31, 2014, 2013 and 2012, respectively. The fees incurred by the Company under these agreements amounted to \$64,000, \$4,000 and \$11,000 for the years ended December 31, 2014, 2013 and 2012, respectively. The Company presents the receivables and payables with the Azzurro entities operating the Travelzoo business in Asia Pacific under these agreements on a net basis on the balance sheet as they are subject to a net settlement agreement as of December 31, 2014. The Company's net receivable was \$553,000 and was included in prepaid expenses and other in the accompanying consolidated balance sheets as of December 31, 2014 in our 2014 Annual Report on Form 10-K. This net receivable is covered by a Guarantee Agreement between Travelzoo and Azzurro Capital, which provides assurance it will be collected in full. The Company's receivables and payables were \$690,000 and \$501,000, respectively, as of December 31, 2013 and were included in prepaid expenses and other and accounts payable in the consolidated balance sheets in our 2014 Annual Report on Form 10-K. In addition, as part of the sale of the Asia Pacific operating segment in 2009, the Company obtained an option, which expires in June 2020, to repurchase the Asia Pacific business pursuant to the terms of the option agreement.

## Family Relationships

Holger Bartel, Chairman of the Board of Directors, and Ralph Bartel, a member of the Board of Directors, are brothers. Except for Holger Bartel and Ralph Bartel, there are no familial relationships among any of our officers and directors.

## Involvement in Certain Legal Proceedings

To our knowledge, during the last ten years, none of our directors and executive officers has: (i) had a bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (ii) been convicted in a criminal proceeding or been subject to a pending criminal proceeding, excluding traffic violations and other minor offenses; (iii) been subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; (iv) been found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated; or (v) been the subject to, or a party to, any sanction or order, not subsequently reverse, suspended or vacated, of any self-regulatory organization, any registered entity, or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

## INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The following table sets forth certain information with respect to the named executive officers of Travelzoo as of March 6, 2015.

Name	Age	Position
Christopher Loughlin	41	Chief Executive Officer
Glen Ceremony	47	Chief Financial Officer
Shirley Tafoya	51	President, North America
Richard Singer	36	Managing Director, Europe
Simon Talling-Smith	46	President, Products & Emerging Businesses

*Christopher Loughlin* has served as Chief Executive Officer since July 2010 after service as Executive Vice President, Europe from May 2005 to June 2010 and Vice President of Business Development from 2001 to April 2005. From 1999 to 2001, he was Chief Operating Officer of Weekends.com. Mr. Loughlin holds a BSc(Hons) in Technology Management from Staffordshire University and an MBA from Columbia University Graduate School of Business in New York City.

*Glen Ceremony* has served as Chief Financial Officer since June 2011. From October 2004 to June 2011, Mr. Ceremony worked at Ebay, Inc. and most recently served as Corporate Controller. In 2004, Mr. Ceremony was Senior Director of Global Finance Audit at Electronic Arts Inc. From 1998 to 2004, Mr. Ceremony worked at PWC LLP and from 1990 to 1998 he was at Coopers & Lybrand LLP. Mr. Ceremony received his B.S. in Business Administration from California State University, Sacramento.

*Shirley Tafoya* served as President, North America from July 2008 to September 2014 after service as Senior Vice President of Sales from 2001 to June 2008. From 1999 to 2001, Ms. Tafoya was the Director of Western Sales at Walt Disney Internet Group. From 1998 to 1999, Ms. Tafoya was a Sales Manager at IDG/International Data Group. Ms. Tafoya holds a bachelor's degree in Business Administration from Notre Dame de Namur University.

*Richard Singer* has served as Managing Director, Europe since July 2012 after service as Commercial Director, Europe from January 2012 to July 2012. From August 2003 to January 2012, Mr. Singer worked at Telegraph Media Group and most recently served as General Manager, Telegraph Travel. Mr. Singer holds a BSc(Hons) degree in Sports Science and Management, and an MSc in Management postgraduate degree, each from Loughborough University, United Kingdom.

*Simon Talling-Smith* has served as President, Products & Emerging Businesses since August 2013. From September 2008 to July 2013, Mr. Talling Smith was Executive Vice President, The Americas, British Airways. From March 2006 to August 2008, Mr. Talling-Smith was Head of Inflight Service, British Airways. From June 2004 to February 2006, Mr. Talling-Smith served as Head of Brand & Product Management, British Airways. From September 2001 to May 2004, Mr. Talling-Smith served as Head of eCommerce, British Airways. Mr. Talling-Smith holds an M.A. (Hons) in Engineering, Economics & Management from University College, Oxford.

## **ADVISORY VOTE ON THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS (PROPOSAL 2)**

Section 14A of the Exchange Act requires that we include in this proxy statement a non-binding stockholder vote on our executive compensation as described herein (commonly referred to as "Say-on-Pay").

We encourage stockholders to review the Compensation Discussion and Analysis included in this proxy statement. Our executive compensation program has been designed to pay for performance and align our executive compensation with business strategies focused on long-term growth and creating value for stockholders while also paying competitively and focusing on the total compensation perspective. We feel this design is evidenced by the following:

- Our goal is to attract, motivate and retain key executives and to reward executives for value creation.
- We provide a significant portion of our total compensation in the form of performance-based compensation; for example, approximately 7% to 34% of our named executive officers' total compensation for 2014 was in the form of performance-based compensation based on the achievement of quarterly corporate financial measures such as revenue, operating income and audience marketing.
- This is not a mechanical process, and our Board of Directors uses its judgment and experience and works with our Compensation Committee to determine the appropriate mix of compensation for each individual.

The Board of Directors strongly endorses the Company's executive compensation program and unanimously recommends that stockholders vote in favor of the following resolution:

**RESOLVED, that the stockholders approve the compensation of our named executive officers, as disclosed pursuant to the compensation disclosure rules of the SEC, including the Compensation Discussion and Analysis and the other tabular and narrative disclosure in the Company's proxy statement for its 2015 Annual Meeting of Stockholders.**

### **Required Vote**

Because the vote is advisory, it will not be binding upon the Board of Directors or the Compensation Committee and neither the Board of Directors nor the Compensation Committee will be required to take any action as a result of the outcome of the vote on this proposal. The Compensation Committee will consider the outcome of the vote when considering future executive compensation arrangements. The affirmative vote of the majority of the shares of the Company's Common Stock present in person or represented by proxy and entitled to vote on the proposal will be considered as the approval, by an advisory vote, of the compensation of our named executive officers.

### **Board of Directors' Recommendation**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE APPROVAL OF THE ADVISORY RESOLUTION RELATING TO THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS.**

## COMPENSATION DISCUSSION AND ANALYSIS

We hold annual votes on executive compensation, in accordance with shareholder recommendation made at the 2014 annual meeting. In light of last year's shareholder approval of the compensation for executives, there were no significant changes in executive compensation.

### Overview of Compensation Program

The following Compensation Discussion and Analysis, or ("CD&A"), describes our overall compensation philosophy and the primary components of our compensation program. Furthermore, the CD&A explains the process by which the Compensation Committee, or "Committee", determined the 2014 compensation for our Chief Executive Officer, Chief Financial Officer and other most highly compensated officers. We refer to these individuals collectively as the "named executives" or the "named executive officers."

### Compensation Philosophy and Objectives

The fundamental objectives of our executive compensation program are to attract and retain highly qualified executive officers, motivate these executive officers to materially contribute to our long-term business success, and align the interests of our executive officers and stockholders by rewarding our executives for individual and corporate performance based on targets established by the Committee.

We believe that achievement of these compensation program objectives enhances long-term profitability and stockholder value. The elements utilized to help achieve the Committee's objectives include the following:

- *Accountability for Individual Performance.* Compensation should in large part depend on the named executive's individual performance in order to motivate and acknowledge the key contributors to our success.
- *Recognition for Business Performance.* Compensation should take into consideration our overall financial performance and overall growth.
- *Attracting and Retaining Talented Executives.* Compensation should generally reflect the competitive marketplace and be designed to attract and retain superior employees in key competitive positions.

We implement our compensation philosophy through setting base salaries for our executive officers, through the use of our executive bonus plan and through reviewing and approving other terms of employment agreements.

### Compensation Determination Process

*Compensation Committee Members.* The Committee is responsible for establishing, overseeing and reviewing executive compensation policies and for approving, validating and benchmarking the compensation and benefits for named executive officers. The Committee is also responsible for determining the fees paid to our outside directors. The Committee includes Mr. Michael Karg (Chair) and Ms. Mary Reilly. Mr. Karg and Ms. Reilly satisfied the independence requirements of the NASDAQ.

*Role of Management.* During 2014, the Committee engaged in its annual review of executive compensation with the goal of ensuring the appropriate combination of fixed and variable compensation linked to individual and corporate performance. In the course of its review, the Committee considered the advice and input of the Company's CEO and data prepared by management, including a comparison of the current compensation of the named executive officers with publicly available information. Management did rely on a service from Equilar Inc., a compensation research firm, to provide peer executive compensation data from proxies and a compensation survey for comparison purposes. However, management did not receive advice from Equilar in setting our executive compensation. The data utilized by the Committee included salary and total compensation information based on the title, job description, and geographic location of similarly situated executives. The most significant aspects of the CEO's role in the compensation determination process are evaluating employee performance, establishing business performance targets, goals and objectives and recommending salary and bonus levels. The CEO does not participate in discussions regarding his compensation.

The Committee compared the compensation received by the Company's named executive officers with the levels of compensation received by similarly situated executives in the same geographic location in light of the named executives' responsibilities, performance, experience and tenure, in order to arrive at the total compensation package for each of the named executive officers. In some cases, the compensation package that the Committee awarded a named executive officer was at or below the median compensation received by executives compared to third-party data, while in other instances the compensation was higher due to the executive's responsibilities, performance, experience and tenure.



The Committee did not engage an outside consulting firm to provide advice on executive compensation.

### **Components of Executive Compensation**

The Committee has structured an executive compensation program comprised of base salary, cash bonus and non-equity incentive pay.

#### ***Base Salary***

The Committee considered two types of potential base salary increases for the named executive officers in 2014: (1) "merit increases" based upon each named executive's individual performance; and/or (2) "market adjustments" based upon the salary range for similarly situated executives.

In determining merit increases, the Committee considers the specific responsibilities of the executive and the executive's overall performance and tenure with the Company. In addition, the Committee also considers the CEO's evaluation of each named executive officer in making the decision regarding merit increases.

The Committee determines any market adjustments based on the Committee's comparison of the executive's compensation with statistical information on average compensation for similarly situated executives that is publicly available.

Mr. Christopher Loughlin and Mr. Glen Ceremony base salaries were increased as shown in on the Summary Compensation Table based upon their individual performance and salary ranges for similarly situated executives in 2014. The Committee did not make any changes to the salaries of Mr. Richard Singer, Ms. Shirley Tafoya and Mr. Simon Talling-Smith.

#### ***Incentive Bonus Pay***

In 2014, 2013 and 2012, Mr. Christopher Loughlin, Mr. Glen Ceremony, Ms. Shirley Tafoya and Mr. Richard Singer received incentive bonuses pursuant to the terms of their employment agreements and the discretion of the Board of Directors. In 2014 and 2013, Mr. Simon Talling-Smith also received incentive bonuses pursuant to the terms of his employment agreements and the discretion of the Board of Directors.

Pursuant to the terms of Mr. Loughlin's employment agreement dated November 18, 2009, effective July 1, 2010 and as amended January 1, 2013 and August 1, 2013, Mr. Loughlin was eligible to receive a quarterly Performance Bonus as set forth below.

Mr. Loughlin was eligible to receive a quarterly Performance Bonus for the first and second quarters during 2014.

The quarterly Performance Bonus is calculated based upon worldwide revenue, operating income and audience targets. The revenue bonus is calculated based upon a sliding scale that ranges from 95% through 105% achievement of the target resulting in a potential bonus that ranges from \$16,000 to \$32,000. The quarterly revenue bonus at 100% of target is \$26,667 and the maximum revenue bonus is \$32,000. The revenue bonus requires that there are no more than two significant customers and that no significant customer is 17% or more than worldwide revenue. The operating income bonus is calculated based upon a sliding scale that ranges from 90% through 105% achievement of the target resulting in a potential bonus that ranges from \$16,000 to \$32,000. The quarterly operating income bonus at 100% of target is \$26,666 and the maximum operating income bonus is \$32,000. The audience bonus is calculated based upon achievement of certain audience targets resulting in a potential bonus of up to \$26,667. The total maximum Performance Bonus per quarter for the revenue, operating income and audience components combined is \$90,667.

Mr. Loughlin was eligible to receive a quarterly Performance Bonus for the third and fourth quarters during 2014.

The quarterly Performance Bonus is calculated based upon worldwide revenue, operating income and audience targets. The revenue bonus is calculated based upon a sliding scale that ranges from 95% through 105% achievement of the target resulting in a potential bonus that ranges from \$28,000 to \$56,000. The quarterly revenue bonus at 100% of target is \$46,667 and the maximum revenue bonus is \$56,000. The revenue bonus requires that there are no more than two significant customers and that no significant customer is 17% or more than worldwide revenue. The operating income bonus is calculated based upon a sliding scale that ranges from 90% through 105% achievement of the target resulting in a potential bonus that ranges from \$28,000 to \$56,000. The quarterly operating income bonus at 100% of target is \$46,666 and the maximum operating income bonus is \$56,000. The audience bonus is calculated based upon achievement of certain audience targets resulting in a potential bonus of up to \$46,667. The total maximum Performance Bonus per quarter for the revenue, operating income and audience components combined is \$158,667.

Mr. Loughlin earned a quarterly bonus for the audience for the first, third and fourth quarters of 2014. Mr. Loughlin received Performance Bonuses totaling \$48,889 during 2014. For 2014, Mr. Loughlin received 13% of the maximum Performance Bonus. The Company believes that targets set for worldwide revenue, operating income and audience align with the Company's desire to continue to grow the business. Since the individual targets are intended to be challenging, and since the separate targets related to different aspects of the Company's performance, it is expected it will be difficult for all the targets to be achieved for any given year.

Pursuant to the terms of Mr. Ceremony's employment agreement dated May 9, 2011, effective June 15, 2011 and as amended January 1, 2013, Mr. Ceremony is eligible to receive a quarterly Performance Bonus for each quarter during 2014.

The quarterly Performance Bonus is calculated based upon worldwide revenue, operating income and audience targets. The revenue bonus is calculated based upon a sliding scale that ranges from 95% through 105% achievement of the target resulting in a potential bonus that ranges from \$10,000 to \$20,000. The quarterly revenue bonus at 100% of target is \$16,667 and the maximum revenue bonus is \$20,000. The revenue bonus requires that there are no more than two significant customers and that no significant customer is 17% or more than worldwide revenue. The operating income bonus is calculated based upon a sliding scale that ranges from 90% through 105% achievement of the target resulting in a potential bonus that ranges from \$10,000 to \$20,000. The quarterly operating income bonus at 100% of target is \$16,667 and the maximum operating income bonus is \$20,000. The audience bonus is calculated based upon achievement of certain audience targets resulting in a potential bonus of up to \$16,666. The total maximum Performance Bonus per quarter for the revenue, operating income and audience components combined is \$56,666.

Mr. Ceremony earned a quarterly bonus for the audience for the first, second and fourth quarter of 2014. Mr. Ceremony received Performance Bonuses totaling \$22,223 during 2014. For 2014, Mr. Ceremony received 10% of the maximum Performance Bonus. The Company believes that targets set for worldwide revenue, operating income and audience align with the Company's desire to continue to grow the business. Since the individual targets are intended to be challenging, and since the separate targets related to different aspects of the Company's performance, it is expected it will be difficult for all the targets to be achieved for any given year.

Mr. Ceremony also received a Discretionary Bonus determined by the Board of Directors at their sole and absolute discretion. In exercising such discretion, the Board of Directors took into consideration Mr. Ceremony's individual performance. In evaluating Mr. Ceremony's individual performance during 2014, the Board of Directors considered factors such Mr. Ceremony's role as an advisor to the CEO on how to manage the Company's financial performance, his initiatives to improve the Company's management information systems, his leadership in the areas of corporate governance and business ethics, and the quality of his management of the Company's relationships with the investment community. Mr. Ceremony received Discretionary Bonuses totaling \$25,000 in 2014.

Pursuant to the terms of Ms. Tafoya's employment agreement dated August 4, 2010, effective July 1, 2010 and as amended January 1, 2013, Ms. Tafoya is eligible to receive a quarterly Performance Bonus for each quarter during 2014. Ms. Tafoya's employment with the Company was terminated on September 12, 2014.

The quarterly Performance Bonus is calculated based upon North America revenue, operating income and audience targets. The revenue bonus is calculated based upon a sliding scale that ranges from 95% through 105% achievement of the target resulting in a potential bonus that ranges from \$24,000 to \$48,000. The quarterly revenue bonus at 100% of target is \$40,000 and the maximum revenue bonus is \$48,000. The revenue bonus requires that there are no more than two significant customers and that no significant customer is 17% or more than North America revenue. The operating income bonus is calculated based upon a sliding scale that ranges from 90% through 105% achievement of the target resulting in a potential bonus that ranges from \$24,000 to \$48,000. The quarterly operating income bonus at 100% of target is \$40,000 and the maximum operating income bonus is \$48,000. The audience bonus is calculated based upon achievement of certain audience targets resulting in a potential bonus of up to \$40,000. The total maximum Performance Bonus per quarter for the revenue, operating income and audience components combined is \$136,000.

Ms. Tafoya earned a quarterly bonus for the audience for the first and second quarter of 2014. Ms. Tafoya received Performance Bonuses totaling \$40,000 during 2014. For 2014, Ms. Tafoya received 7% of the maximum Performance Bonus. The Company believes that targets set for North America revenue, operating income and audience align with the Company's desire to continue to grow the business. Since the individual targets are intended to be challenging, and since the separate targets related to different aspects of the Company's performance, it is expected it will be difficult for all the targets to be achieved for any given year.

Pursuant to the terms of Mr. Singer's employment agreement dated October 31, 2011, effective January 16, 2012 and as amended July 1, 2012 and January 1, 2013, Mr. Singer is eligible to receive a quarterly Performance Bonus for each quarter during 2014. Mr. Singer's Performance Bonus is payable in British pounds and have been translated into US dollars (at the rate of £1 to \$1.65) for the purposes of this summary.

The quarterly Performance Bonus is calculated based upon Europe revenue, operating income and audience targets. The revenue bonus is calculated based upon a sliding scale that ranges from 95% through 105% achievement of the target resulting in a potential bonus that ranges from \$19,757 to \$39,514. The quarterly revenue bonus at 100% of target is \$32,928 and the maximum revenue bonus is \$39,514. The operating income bonus is calculated based upon a sliding scale that ranges from 90% through 110% achievement of the target resulting in a potential bonus that ranges from \$19,757 to \$39,514. The quarterly operating income bonus at 100% of target is \$32,928 and the maximum operating income bonus is \$39,514. The audience bonus is calculated based upon achievement of certain audience targets resulting in a potential bonus of up to \$16,464. The total maximum Performance Bonus per quarter for the revenue, operating income and audience components combined is \$95,492.

Mr. Singer earned a quarterly bonus for revenue for the first and third quarters, operating income bonus for the first and second quarters and audience for each of the quarters of 2014. Mr. Singer received Performance Bonuses totaling \$128,725 during 2014. For 2014, Mr. Singer received 34% of the maximum Performance Bonus. The Company believes that targets set for Europe revenue, operating income and audience align with the Company's desire to continue to grow the business. Since the individual targets are intended to be challenging, and since the separate targets related to different aspects of the Company's performance, it is expected it will be difficult for all the targets to be achieved for any given year.

Pursuant to the terms of Mr. Talling-Smith's employment agreement dated April 12, 2013, effective August 1, 2013, Mr. Talling-Smith is eligible to receive a quarterly Performance Bonus and a quarterly non-financial bonus for each of the quarters during 2014.

The quarterly Performance Bonus is calculated based upon revenue, operating income and non-financial targets. The revenue bonus is calculated based upon a sliding scale that ranges from 95% through 105% achievement of the target resulting in a potential bonus that ranges from \$15,000 to \$30,000. The quarterly revenue bonus at 100% of target is \$25,000 and the maximum revenue bonus is \$30,000. The operating income bonus is calculated based upon a sliding scale that ranges from 90% through 110% achievement of the target resulting in a potential bonus that ranges from \$15,000 to \$30,000. The quarterly operating income bonus at 100% of target is \$25,000 and the maximum operating income bonus is \$30,000. The non-financial target bonus is calculated based upon achievement of certain non-financial targets resulting in a potential bonus of up to \$25,000. The total maximum Performance Bonus per quarter for the revenue, operating income and audience components combined is \$85,000.

Mr. Talling-Smith earned a quarterly bonus for the non-financial targets for each of the quarters of 2014. Mr. Talling-Smith received Performance Bonuses totaling \$85,625 during 2014. For 2014, Mr. Talling-Smith received 25% of the maximum Performance Bonus. The Company believes that targets set for revenue, operating income and non-financial targets align with the Company's desire to continue to grow the business. Since the individual targets are intended to be challenging, and since the separate targets related to different aspects of the Company's performance, it is expected it will be difficult for all the targets to be achieved for any given year.

## **Other Compensation-Related Matters**

*Stock Options.* The Company grants certain executive officers stock options (which represent the right to purchase a specific number of shares of company common stock at a predetermined price, subject to vesting conditions), to align their incentives with the long-term interests of our stockholders, retain them for the long term, reward them for potential long-term contributions, and provide a total compensation opportunity commensurate with our performance.

*Perquisites and Additional Benefits.* The Company seeks to maintain an open and inclusive culture in its facilities and operations among executives and other Company employees. Accordingly, the Company does not provide executives with reserved parking spaces or separate dining or other facilities, nor does the Company have programs for providing personal-benefit perquisites to executives, such as club dues or defraying the cost of personal entertainment. Named executive officers and employees may seek reimbursement for business related expenses in accordance with our business expense reimbursement policy.

*Employment Agreements.* The Company has entered into employment agreements with the named executive officers, some of which contain severance and change of control provisions. The terms of such employment agreements are described in more detail below in *Employment Agreements and Potential Payments Upon Termination or Change-in-Control*. The Committee believes these agreements are appropriate for a number of reasons, including the following:

- the agreements assist in attracting and retaining executives as we compete for talented employees in a marketplace where such agreements are commonly offered;
- the change in control provisions require terminated executives to execute a release in order to receive severance benefits; and
- the change in control and severance provisions help retain key personnel during rumored or actual acquisitions or similar corporate changes.

## **Compensation Committee Interlocks & Insider Participation**

The current members of our compensation committee are Mr. Karg and Ms. Reilly. In 2014, none of our executive officers served as a member of the compensation committee of another entity, or as a director of another entity, one of whose executive officers served on our compensation committee.

## Summary Compensation Table

The following summary compensation table sets forth information concerning the compensation to our Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executive officers during the fiscal years ended December 31, 2014, 2013 and 2012.

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$)	Option Awards \$(1)	Non-Equity Incentive Plan Compensation \$(2)	All Other Compensation (\$)	Total (\$)
<b>Christopher Loughlin (3)</b>							
Chief Executive Officer	2014	581,000	—	—	48,887 (10)	1,500 (11)	631,387
	2013	562,000	60,000 (8)	1,415,250	184,364 (10)	24,429 (11)	2,246,043
	2012	562,000	17,500 (8)	—	—	46,327 (11)	625,827
<b>Glen Ceremony (4)</b>							
Chief Financial Officer (effective June 15, 2011)	2014	460,000	25,000 (8)	—	22,223 (10)	3,869 (12)	511,092
	2013	450,000	88,889 (8)	—	116,178 (10)	3,903 (12)	658,970
	2012	450,000	50,000 (8)	953,800	87,500 (10)	1,500 (12)	1,542,800
<b>Shirley Tafoya (5)</b>							
President, North America	2014	382,180	—	(186,000) (9)	40,000 (10)	386,370 (13)	622,550
	2013	542,000	30,000 (8)	—	443,561 (10)	4,173 (13)	1,019,734
	2012	542,000	110,000 (8)	953,800	80,000 (10)	3,869 (13)	1,689,669
<b>Richard Singer (6)</b>							
Managing Director, Europe (effective July 1, 2012)	2014	329,284	—	—	128,725 (10)	26,980 (14)	484,989
	2013	311,573	9,099 (8)	—	291,295 (10)	24,168 (14)	636,135
	2012	267,688	32,918 (8)	—	49,374 (10)	10,341 (14)	360,321
<b>Simon Talling-Smith (7)</b>							
President, Products & Emerging Business (effective August 1, 2013)	2014	420,000	—	—	85,625 (10)	17,903 (15)	523,528
	2013	175,000	—	—	62,500 (10)	29,802 (15)	267,302

### Notes:

- (1) Under SEC rules, the values reported reflect the aggregate grant date fair value of grants of stock options to each of the listed officers in the years shown. We calculate the grant date fair value of stock options using the Black-Scholes option pricing model. For a more detailed discussion on the valuation model and assumptions used to calculate the fair value of our options, refer to Note 9 to the consolidated financial statements contained in our 2014 Annual Report on Form 10-K filed on February 12, 2014.
- (2) The amounts reflected in this column reflect the performance-based cash awards paid to the named executives pursuant to certain employment agreements, as discussed in the CD&A above.
- (3) Mr. Loughlin became the Chief Executive Officer on July 1, 2010. Mr. Loughlin's base salary increased to \$600,000 per year effective July 1, 2014.

- (4) Mr. Ceremony became the Chief Financial Officer on June 15, 2011. Mr. Ceremony's base salary increased to \$470,000 per year effective July 1, 2014.
- (5) Ms. Tafoya's bases salary is through termination date of September 12, 2014.
- (6) Mr. Singer became Commercial Director, Europe on January 16, 2012 and become Managing Director, Europe on July 1, 2012. Mr. Singer's compensation is denominated in British pounds and was translated into U.S. dollars using the annual average daily exchange rate of £1 = \$1.65 for 2014, £1 = \$1.56 for 2013 and £1 = \$1.58 for 2012.
- (7) Mr. Talling-Smith became the President, Products & Emerging Business on August 1, 2013.
- (8) Amount consists of discretionary bonuses earned per the terms of employment agreement and/or at the discretion of the Board of Directors.
- (9) Amount represents reversal of stock based compensation expense related to the forfeiture of 25,000 options upon termination of employment.
- (10) Amount represents quarterly performance bonuses earned per the terms of employment agreement.
- (11) For 2014, amount consists of the Company's matching contribution of \$1,500 under the Company's 401(k) Plan. For 2013, amount consists of housing allowance of \$22,929 and \$1,500 of the Company's matching contribution under the Company's 401(k) Plan. For 2012, amount consists of housing allowance of \$44,827 and \$1,500 of the Company's matching contribution under the Company's 401(k) Plan.
- (12) For 2014, 2013 and 2012, amount consists of the Company's matching contribution of \$1,500 under the Company's 401(k) Plan. In addition, for 2014 and 2013, amount includes \$2,369 and \$2,403 in bonus payments made to eligible employees.
- (13) For 2014, 2013 and 2012, amount consists of the Company's matching contribution of \$1,500 under the Company's 401(k) Plan. For 2014, 2013 and 2012, amount includes \$5,076, \$2,673 and \$2,369 in bonus payments made to eligible employees. In addition, for 2014, amount includes \$37,794 for vacation cash out payments and \$342,000 of severance related to termination of employment.
- (14) For 2014, amount consists of the Company's contribution of \$23,050 to the Company's UK Employee Pension Contribution Plan and \$3,930 for premiums paid for private health insurance for Mr. Singer and his family. For 2013, amount consists of the Company's contribution of \$21,840 to the Company's UK Employee Pension Contribution Plan and \$2,328 for premiums paid for private health insurance for Mr. Singer and his family. For 2012, amount consists of the Company's contribution of \$10,237 to the Company's UK Employee Pension Contribution Plan and \$104 for premiums paid for private health insurance for Mr. Singer and his family.
- (15) For 2014, amount consists of the amount consists of housing allowance of \$17,903. For 2013, amount consists of housing allowance of \$29,802.

## Grants of Plan-Based Awards in 2014

The following table sets forth certain information with respect to non-equity incentive plan awards granted to each of our named executive officers during the fiscal year ended December 31, 2014.

	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards		
	Threshold (\$)	Target (\$)	Maximum (\$)
Christopher Loughlin (1)	176,000	386,670	498,668
Glen Ceremony (1)	80,000	133,336	226,664
Shirley Tafoya (1)	192,000	320,000	544,000
Richard Singer (1)	158,056	329,284	381,969
Simon Talling-Smith (1)	120,000	300,000	340,000

- (1) Amount represents the potential annual Performance Bonus payments under the terms of employment agreement. The business measurements and performance goals for determining the Performance Bonus payout are described in the CD&A.

## Outstanding Equity Awards at December 31, 2014

Name	Option Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date
Christopher Loughlin	300,000	—	14.97	11/18/2019
	—	75,000(1)	29.58	7/22/2023
Glen Ceremony	37,500	12,500(2)	28.98	1/23/2022

- (1) The options are exercisable in increments of 33.33% from and after July 1 of each year from 2015 through 2017, as long as Mr. Loughlin's employment remains in effect at such dates.
- (2) The options are exercisable in increments of 25% from and after January 23 of each year from 2013 through 2016, as long as Mr. Ceremony's employment remains in effect at such dates.

## Option Exercises and Stock Vested

For the year ended December 31, 2014, there were no options exercised by any of our named executive officers. For the year ended December 31, 2014, 75,000 shares of Mr. Loughlin's stock options were vested and 12,500 shares of Mr. Ceremony's stock options were vested, respectively.

## **Employment Agreements and Potential Payments Upon Termination or Change-in-Control**

The Company has employment agreements with its named executive officers and certain other employees. The employment agreements as of December 31, 2013 with the Company's named executive officers are described below.

Mr. Loughlin entered into an employment agreement with the Company on November 18, 2009, pursuant to which he became the Company's Chief Executive Officer on July 1, 2010. This agreement was amended on effective January 1, 2013 and August 1, 2013 and has a four year term ending on June 30, 2017. The Company may terminate the agreement, with or without cause, upon written notice to Mr. Loughlin. However, if Mr. Loughlin's employment is terminated at any time without cause or if Mr. Loughlin's employment is terminated at any time due to a change of control (as defined in the agreement) or if he is not offered a position of comparable pay and responsibilities in the same geographic area in which he worked immediately prior to a change of control, Mr. Loughlin will be entitled to receive his base salary and medical benefits for a twelve month period in exchange for executing a general release of claims as to the Company. Assuming that Mr. Loughlin was terminated by the Company as of December 31, 2014 without cause, Mr. Loughlin would have been entitled to receive \$600,000 and the Company would incur additional expenses for medical benefits of approximately \$19,375.

Mr. Loughlin is paid a base salary and is eligible to certain annual and quarterly bonuses. In connection with the agreement, on November 18, 2009 the Company granted Mr. Loughlin options to purchase 300,000 shares of the Company's common stock. The Company provided relocation assistance and is providing a housing allowance to Mr. Loughlin in connection with his move from London to New York City. Mr. Loughlin is also entitled to participate in or receive such benefits under the Company's employee benefit plans and policies and such other benefits which may be in effect from time to time and as are provided to similarly situated employees of the Company.

Mr. Loughlin agreed that the Company will own any discoveries and work product (as defined in the agreement) made during the term of his employment and to assign all of his interest in any and all such discoveries and work product to the Company. Furthermore, Mr. Loughlin agreed not to, directly or indirectly, perform services for, or engage in, any business competitive with the Company or solicit the Company's customers or employees during the term of his employment and for a period of one year thereafter.

Mr. Ceremony entered into an employment agreement with the Company on June 15, 2011. Pursuant to the terms of the agreement, Mr. Ceremony is an at-will employee and the Company or Mr. Ceremony may terminate the agreement, with or without cause, upon three months notice. However, if Mr. Ceremony's employment is terminated at any time without cause, Mr. Ceremony will be entitled to receive his base salary for a six month period in exchange for executing a general release of claims as to the Company. Assuming that Mr. Ceremony was terminated by the Company as of December 31, 2014 without cause, Mr. Ceremony would have been entitled to receive \$235,000. If Mr. Ceremony's employment is terminated at any time due to a change of control (as defined in the agreement) or if he is not offered a position of comparable pay and responsibilities in the same geographic area in which he worked immediately prior to a change of control, Mr. Ceremony will be entitled to receive his base salary and medical benefits for a six month period in exchange for executing a general release of claims as to the Company. Assuming that Mr. Ceremony was terminated by the Company as of December 31, 2014 following a change of control of the Company, Mr. Ceremony would have been entitled to receive \$235,000 and the Company would incur additional expenses for medical benefits of approximately \$8,047.

Mr. Ceremony agreed that the Company will own any discoveries and work product (as defined in the agreement) made during the term of his employment and to assign all of his interest in any and all such discoveries and work product to the Company. Furthermore, Mr. Ceremony agreed to not, directly or indirectly, solicit the Company's customers or employees during the term of his employment and for a period of one year thereafter.

Ms. Tafoya entered into an employment agreement with the Company on August 4, 2010. Pursuant to the terms of the agreement, Ms. Tafoya was an at-will employee and the Company or Ms. Tafoya could terminate the agreement, with or without cause, with or without notice. However, if Ms. Tafoya's employment was terminated at any time without cause, Ms. Tafoya would be entitled to receive her base salary for a twelve month period in exchange for executing a general release of claims as to the Company. If Ms. Tafoya's employment was terminated at any time due to a change of control (as defined in the agreement) or if she was not offered a position of comparable pay and responsibilities in the same geographic area in which she worked immediately prior to a change of control, Ms. Tafoya would be entitled to receive her base salary and medical benefits for a twelve month period in exchange for executing a general release of claims as to the Company. Ms. Tafoya was terminated without cause by the Company effective as of September 12, 2014. Upon the signing of a separate agreement and general release, effective December 13, 2014, Ms. Tafoya was entitled to receive \$342,000.



Ms. Tafoya agreed that the Company will own any discoveries and work product (as defined in the agreement) made during the term of her employment and to assign all of her interest in any and all such discoveries and work product to the Company. Furthermore, Ms. Tafoya agreed to not, directly or indirectly, solicit the Company's customers or employees during the term of her employment and for a period of one year thereafter.

Mr. Singer entered into an employment agreement with the Company on January 26, 2012 as amended on July 1, 2012. Pursuant to the terms of the agreement, Mr. Singer is an at-will employee and the Company or Mr. Singer may terminate the agreement, with or without cause upon six months, prior written notice. However, if Mr. Singer's employment is terminated at any time without cause, Mr. Singer will be entitled to receive his base salary for a six month period in exchange for executing a general release of claims as to the Company. Assuming that Mr. Singer was terminated by the Company as of December 31, 2014 without cause, Mr. Singer would have been entitled to receive \$155,787.

Mr. Singer agreed that the Company will own any discoveries and work product (as defined in the agreement) made during the term of his employment and to assign all of his interest in any and all such discoveries and work product to the Company. Furthermore, Mr. Singer agreed to not, directly or indirectly, solicit the Company's customers or employees during the term of his employment and for a period of one year thereafter.

Mr. Talling-Smith entered into an employment agreement with the Company on April 12, 2013. Pursuant to the terms of the agreement, Mr. Talling-Smith is an at-will employee and the Company or Mr. Talling-Smith may terminate the agreement, with or without cause, upon three months notice. However, if Mr. Talling-Smith's employment is terminated at any time without cause, Mr. Talling-Smith will be entitled to receive his base salary for a six month period in exchange for executing a general release of claims as to the Company. Assuming that Mr. Talling-Smith was terminated by the Company as of December 31, 2014 without cause, Mr. Talling-Smith would have been entitled to receive \$210,000. If Mr. Talling-Smith's employment is terminated at any time due to a change of control (as defined in the agreement) or if he is not offered a position of comparable pay and responsibilities in the same geographic area in which he worked immediately prior to a change of control, Mr. Talling-Smith will be entitled to receive his base salary and medical benefits for a six month period in exchange for executing a general release of claims as to the Company. Assuming that Mr. Talling-Smith was terminated by the Company as of December 31, 2014 following a change of control of the Company, Mr. Talling-Smith would have been entitled to receive \$210,000 and the Company would incur additional expenses for medical benefits of approximately \$6,371.

Mr. Talling-Smith agreed that the Company will own any discoveries and work product (as defined in the agreement) made during the term of his employment and to assign all of his interest in any and all such discoveries and work product to the Company. Furthermore, Mr. Talling-Smith agreed to not, directly or indirectly, solicit the Company's customers or employees during the term of his employment and for a period of one year thereafter.

### **Forward-Looking Statements**

Disclosures in this Compensation Discussion & Analysis may contain certain forward-looking. Statements that do not relate strictly to historical or current facts are forward-looking and usually identified by the use of words such as "anticipate," "estimate," "approximate," "expect," "intend," "plan," "believe" and other words of similar meaning in connection with any discussion of future operating or financial matters. Without limiting the generality of the foregoing, forward-looking statements contained in this report include the matters discussed regarding the expectation of compensation plans, strategies, objectives, and growth and anticipated financial and operational performance of the Company and its subsidiaries. A variety of factors could cause the Company's actual results to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. The risks and uncertainties that may affect the operations, performance and results of the Company's business and forward-looking statements include, but are not limited to those set forth herein. Any forward-looking statement speaks only as of the date on which such statement is made and the Company does not intend to correct or update any forward-looking statements, whether as a result of new information, future events or otherwise.

## Compensation Committee Report

*The information contained in this report shall not be deemed to be "soliciting material" or "filed" with the SEC or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that Travelzoo specifically incorporates it by reference into a document filed under the Securities Act or the Exchange Act.*

The Company's Compensation Committee has reviewed and discussed the CD&A with management and, based on such review and discussions, the Compensation Committee recommended to the Company's Board of Directors that the CD&A be included in the proxy statement on Schedule 14A.

Compensation Committee

Michael Karg (*Chair*)

Mary Reilly

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows the amount of our common stock beneficially owned as of March 6, 2015 by (a) each director and nominee for election to the Board of Directors, (b) each named executive officer, (c) all executive officers and directors as a group, and (d) each person known by the Company, as of March 6, 2015, to beneficially own more than 5% of the outstanding shares of common stock of the Company. In general, shares "beneficially owned" include those shares a person has or shares the power to vote, or the power to dispose of.

<b>Beneficial Owner</b>	<b>Beneficial Ownership</b>	
	<b>Number of Shares(1)</b>	<b>Percent of Total(2)</b>
<b>Directors and Named Executive Officers</b>		
Holger Bartel	200,000	1.36%
Ralph Bartel(3)*	7,230,538	49.09%
Glen Ceremony	37,500	**
Christopher Loughlin	300,000	2.04%
Simon Talling-Smith	—	—
Richard John Singer	—	—
Shirley Tafoya	—	—
Donovan Neale-May	—	—
Michael Karg	—	—
Mary Reilly	—	—
Directors and executive officers as a group (10 persons)	7,768,038	52.26%
<b>* Persons Owning More Than 5% of Common Stock</b>		

\*\* Less than 1%

- (1) Represents shares subject to stock options that are exercisable on March 6, 2015 or become exercisable within 60 days of March 6, 2015. Except as otherwise indicated and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all their shares of common stock.
- (2) For each person and group indicated in this table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of 14,730,454 shares of common stock outstanding as of March 6, 2015, plus the number of shares of common stock that such person or group had the right to acquire within 60 days after March 6, 2015.
- (3) Ralph Bartel indirectly holds a controlling interest of Azzurro Capital Inc., which is the holder of 7,230,538 shares, through the Ralph Bartel 2005 Trust. Azzurro Capital Inc. currently holds a proxy given to it by Mr. Holger Bartel that provides it with a total of 50.4% of the voting power.

## SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under Section 16(a) of the Securities Exchange Act of 1934, the Company's directors, executive officers and the beneficial holders of more than 10% of the Company's common stock are required to file reports of ownership and changes in ownership with the SEC. Such directors, executive officers and beneficial holders of more than 10% of the Company's common stock are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of such forms furnished to the Company or written representations from reporting persons, during fiscal 2014, all Section 16(a) filing requirements were satisfied on a timely basis, except the Form 3 for Mr. Simon Talling-Smith as President, Products & Emerging Business, hired on August, 2013 as the Company has now determined that Mr. Talling-Smith should be considered a Section 16 named executive officer. Mr. Talling-Smith did not purchase or sell the Company's stock during fiscal year 2014.

### PRINCIPAL ACCOUNTANT FEES AND SERVICES

#### Independent Public Accountants

KPMG LLP ("KPMG") served as Travelzoo's independent registered public accounting firm for our 2014 fiscal year. KPMG representatives are expected to be present at the Annual Meeting and will be available to respond to questions at the meeting; however, they are not expected to make a formal statement.

The Audit Committee has not yet selected our independent registered public accounting firm for our 2015 fiscal year. The Audit Committee annually reviews the performance of our independent registered public accounting firm and the fees charged for their services. This review has not yet been completed. Based upon the results of this review, the Audit Committee will determine which independent registered public accounting firm to engage to perform our annual audit. Stockholder approval of our accounting firm is not required by our bylaws or otherwise required to be submitted to the stockholders.

#### Principal Accountant Fees and Services

During fiscal year 2014 and 2013, KPMG charged fees for services rendered to Travelzoo as follows:

Service	2014 Fees	2013 Fees
Audit fees(1)	\$ 996,698	\$ 911,920
Audit-related fees	—	—
Tax fees	—	—
All other fees	—	—
Total	<u>\$ 996,698</u>	<u>\$ 911,920</u>

- (1) Audit fees consisted of fees for professional services rendered for the annual audit of Company's consolidated financial statements and review of the interim consolidated financial statements included in the quarterly reports and audit services rendered in connection with other statutory or regulatory filings.

#### Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

The Audit Committee pre-approves all audit and permissible non-audit services provided by the Company's independent registered public accounting firm. These services may include audit services, audit-related services, tax and other services. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis. During 2014 and 2013, all services provided by KPMG were pre-approved by the Audit Committee in accordance with this policy.

## AUDIT COMMITTEE REPORT

*The information contained in this report shall not be deemed to be "soliciting material" or "filed" with the SEC or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), except to the extent that Travelzoo specifically incorporates it by reference into a document filed under the Securities Act of 1933, as amended (the "Securities Act") or the Exchange Act.*

The Audit Committee oversees Travelzoo's financial reporting process on behalf of the Board of Directors. Management is primarily responsible for the financial statements and reporting processes including the systems of internal controls, while the independent auditors are responsible for performing an independent audit of Travelzoo's consolidated financial statements in accordance with auditing standards of the Public Company Accounting Oversight Board ("PCAOB"), and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States.

In this context, the committee has met and held discussions with management and the independent auditors regarding the Company's audited consolidated financial statements for the fiscal year ended December 31, 2014. The committee discussed with Travelzoo's independent auditors the overall scope and plan for their audit. The committee met, at least quarterly, with the independent auditors, with and without management present, and discussed the results of their examinations, their evaluations of Travelzoo's internal controls, and the overall quality of Travelzoo's financial reporting. Management represented to the committee that Travelzoo's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States. The committee has reviewed and discussed the consolidated financial statements with management and the independent auditors, including their judgments as to the quality, not just the acceptability, of Travelzoo's accounting principles and such other matters as are required to be discussed with the committee under auditing standards of the PCAOB.

Travelzoo's independent auditors also provided to the committee the written disclosures required by applicable requirements of the PCAOB regarding the independent accountant's communications with the audit committee concerning independence, and the committee discussed with the independent auditors that firm's independence, including those matters required to be discussed by Statement on Auditing Standards No. 16, as amended.

In reliance on the reviews and discussions referred to above, the committee recommended to the Board of Directors (and the Board of Directors has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the SEC. The committee has not yet selected Travelzoo's independent auditors for fiscal year 2015.

While the committee has the responsibilities and powers set forth in its charter, it is not the duty of the committee to plan or conduct audits or to determine that Travelzoo's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditors. Nor is it the duty of the committee to conduct investigations or to assure compliance with laws and regulations or Travelzoo's business conduct policies.

Audit Committee

Mary Reilly (*Chair*)

Donovan Neale-May

Michael Karg

## DOCUMENTS INCORPORATED BY REFERENCE

The SEC allows us to "incorporate by reference" information into this document. This means that the Company can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be a part of this document, except for any information that is superseded by information that is included directly in this document or in any other subsequently filed document that also is incorporated by reference herein.

This document incorporates by reference our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 ("2014 Annual Report"), which was filed previously with the SEC and contains important information about the Company and its financial condition, including information contained in our 2014 Annual Report under the captions "Financial Statements and Supplementary Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Changes in and Disagreements with Accountants on Accounting and Financial Disclosure," and "Quantitative and Qualitative Disclosures about Market Risk." Copies of the 2014 Annual Report accompany this proxy statement.

The Company will amend this proxy statement to include or incorporate by reference any additional documents that the Company may file with the Securities and Exchange Commission under Section 13(a), 13(e), 14, or 15(d) of the Exchange Act after the date of this document to the extent required to fulfill our disclosure obligations under the Exchange Act.

The Company will provide, without charge, to each person to whom this proxy statement is delivered, upon written or oral request of such person and by first class mail or other equally prompt means within one business day of receipt of such request, a copy of any and all information that has been incorporated by reference in this proxy statement. You may obtain a copy of these documents and any amendments thereto by contacting Investor Relations, Travelzoo Inc., 590 Madison Avenue, 37th Floor, New York, New York 10022 or by telephone at (212) 484-4900. This proxy statement and the 2014 Annual Report are available on the Internet at [corporate.travelzoo.com/annualreport](http://corporate.travelzoo.com/annualreport). These documents are also included in our SEC filings, which you can access electronically at the SEC's website at <http://www.sec.gov>.

## **ADDITIONAL INFORMATION**

We are subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith, we file periodic reports, documents and other information with the SEC relating to our business, financial statements and other matters. Such reports and other information may be inspected and are available for copying at the offices of the SEC, 100 F Street, N.E., Washington, D.C. 20549 or may be accessed at [www.sec.gov](http://www.sec.gov). Information regarding the operation of the public reference rooms may be obtained by calling the SEC at 1-800-SEC-0330. You are encouraged to review the annual report on Form 10-K, as amended, mailed along with these proxy materials, together with any subsequent information we filed or will file with the SEC and other publicly available information. A copy of any public filing is also available, at no charge, by contacting Investor Relations, Travelzoo Inc., 590 Madison Avenue, 37th Floor, New York, New York 10022 or by telephone at (212) 484-4900.

### **INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON**

No director, executive officer, nominee for election as a director or associate of any director, executive officer or nominee has any substantial interest, direct or indirect, by security holdings or otherwise, in the proposed matters to be acted upon, other than director elections and stock option approval, which is not shared by all other stockholders.

### **OTHER BUSINESS**

The Board of Directors does not presently intend to bring any other business before the meeting, and, so far as is known to the Board of Directors, no matters are to be brought before the meeting except as specified in the Notice of Annual Meeting of Stockholders. As to any business that may properly come before the meeting, however, it is intended that proxies, in the form enclosed, will be voted in respect thereof in accordance with the judgment of the persons voting such proxies.

### **STOCKHOLDER PROPOSALS FOR THE 2016 ANNUAL MEETING**

It is contemplated that the next annual meeting of stockholders will be held on or about May 6, 2016. Stockholders may submit proposals on matters appropriate for stockholder action at annual meetings in accordance with the rules and regulations adopted by the SEC. For a stockholder proposal to be included in the Company's proxy statement and identified in its form of proxy in connection with the Company's annual meeting of stockholders, it must be received by the Company at least 120 calendar days prior to the one-year anniversary of the date that the Company's proxy statement was released to the stockholders in connection with the previous year's annual meeting. As a result, stockholder proposals submitted for consideration at the 2016 annual meeting must be received no later than November 18, 2015, to be included in the 2016 proxy materials. Rule 14a-8 of the Exchange Act provides additional information regarding the content and the procedures applicable to the submission of stockholder proposals to be included in the Company's proxy materials for its next Annual Meeting.

If a stockholder wishes to present a proposal at Travelzoo's 2016 Annual Meeting or to nominate one or more directors and the proposal is not intended to be included in Travelzoo's proxy statement relating to that meeting, the stockholder shall give advance written notice to Travelzoo not earlier than November 18, 2015 and not later than February 8, 2016. These requirements are separate from and in addition to the requirements a stockholder must meet to have a proposal included in our proxy statement.

Any such notice must be delivered or mailed to our Corporate Secretary, at Travelzoo Inc., 800 W. El Camino Real, Suite 275, Mountain View, CA 94040.

## HOUSEHOLDING

We have adopted a procedure approved by the SEC called "householding." Under this procedure, a householding notice will be sent to stockholders who have the same address and last name and do not participate in electronic delivery of proxy materials, and they will receive only one copy of our annual report and proxy statement unless one or more of these stockholders notifies us that they wish to not participate in householding and continue receiving individual copies. This procedure reduces our printing costs and postage fees. Each stockholder who participates in householding will continue to receive a separate proxy card.

The Company will promptly deliver, upon oral or written request, a separate copy of the proxy statement and annual report to any stockholder participating in householding. Stockholders who share an address with other stockholders and are eligible for householding, but currently receive multiple copies of our annual reports and proxy statements, or who have multiple accounts in their names, can authorize us to discontinue mailings of multiple annual reports and proxy statements. Requests for additional copies, or requests for a single copy to be delivered to a shared address should be directed to Investor Relations, Travelzoo Inc., 590 Madison Avenue, 37th Floor, New York, New York 10022 or by telephone at (212) 484-4900.

HOLGER BARTEL

*Chairman of the Board of Directors*

590 Madison Avenue, 37th Floor  
New York, New York 10022



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**TRAVELZOO INC.**

**ANNUAL MEETING OF STOCKHOLDERS**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

**The undersigned hereby appoints Glen Ceremony as his/her Proxy, with full power of substitution, to represent him/her at the Annual Meeting of Stockholders of Travelzoo Inc. (the "Company") on May 1, 2015, or any adjournments or postponements thereof. If you do not indicate how you wish to vote, the proxy card will be voted for Proposal 1, for the election of all nominees to the Board of Directors, for Proposal 2 and as the Proxy may determine, in his discretion, with regard to any other matter properly presented at the meeting, or any adjournments or postponements thereof.**

**This proxy, when properly executed, will be voted as directed by the stockholder.**

**(Continued, and to be marked, dated and signed, on the other side)**

**TRAVELZOO INC.**

Mailing Instructions

If you receive this proxy card via mail, please date and sign it, and return it in the postage paid envelope provided.

If you receive this proxy card via e-mail, please print the proxy card, date and sign it, and return it to:

Broadridge Financial Solutions, Inc.

51 Mercedes Way,

Edgewood, NY 11717.

DETACH PROXY CARD HERE:

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**PROPOSALS** - The Board of Directors recommends a vote "FOR" all the listed nominees under Proposal 1 and "For" proposal 2.

1. ELECTION OF DIRECTORS  **FOR** all nominees listed below (except as marked to the contrary, if any, below)  **WITHHOLD AUTHORITY** to vote for all nominees listed below

*Nominees:* 01 Holger Bartel, 02 Ralph Bartel, 03 Michael Karg, 04 Donovan Neale-May, 05 Mary Reilly.

**(To withhold authority to vote for an individual, write that nominee's name in the space provided below.)**

2. ADVISORY VOTE ON THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS

**FOR**       **AGAINST**       **ABSTAIN**

3. SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE SAID MEETING AND ANY POSTPONEMENT OR ADJOURNMENT THEREOF

The undersigned hereby acknowledges receipt of the proxy statement and 2014 Annual Report of Travelzoo Inc.

Date \_\_\_\_\_, 2015

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(signature, if jointly held)

Please sign exactly as name appears at left. If stock is jointly held each owner should sign. Executors, Administrators, Trustees, Guardians and Corporate Officers should indicate their fiduciary capacity or full title when signing.

**MARK HERE IF YOU INTEND TO ATTEND THE MEETING**

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

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**Form 10-K**

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(Mark One)

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

For the fiscal year ended December 31, 2014  
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

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

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**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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

As of June 30, 2014, 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 \$141,253,375.

The number of shares of Travelzoo common stock outstanding as of February 13, 2015 was 14,730,454 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement for its 2014 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.

**TRAVELZOO INC.**

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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”, and similar expressions are intended to identify forward-looking statements. Travelzoo's actual results and the timing of certain events could differ significantly from those anticipated in such forward-looking statements. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those discussed 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 Internet media company. We inform over 27 million members in North America, Europe and Asia Pacific, 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. In Asia Pacific, the *Travelzoo* business is operated by Travelzoo (Asia) Limited and Travelzoo Japan K.K. under a license agreement with Travelzoo Inc. and is not owned by the Company.

We attract a high-quality audience of travel and leisure enthusiasts across multiple digital platforms, including e-mail, web, social media and mobile applications. We inform our audience about travel, entertainment and local deals available at over 2,000 companies. Over 27 million members receive our e-mail newsletters, published in 11 countries worldwide, including those in Asia Pacific where our brand is operated under a license. Travelzoo's website is visited by 9.0 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 2.2 million followers on Facebook and Twitter. Our mobile applications have been downloaded 3.4 million times.

Our publications and products include the *Travelzoo* websites (www.travelzoo.com, www.travelzoo.ca, www.travelzoo.co.uk, www.travelzoo.de, www.travelzoo.es, www.travelzoo.fr, 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.

In 2009, we sold our Asia Pacific operating segment to Azzurro Capital Inc. and its wholly-owned subsidiaries, Travelzoo (Asia) Limited and Travelzoo Japan K.K. We have not had significant ongoing involvement with the operations of the Asia Pacific operating segment and have not had material economic interests in the Asia Pacific operating segment since the completion of the sale. Starting November 1, 2009, the *Travelzoo* websites in Asia Pacific (cn.travelzoo.com, www.travelzoo.co.jp, www.travelzoo.com.au, www.travelzoo.com.hk, www.travelzoo.com.tw, among others), the *Travelzoo* iPhone and Android applications in Asia Pacific, the *Travelzoo Top 20* e-mail newsletters in Asia Pacific and the *Newsflash* e-mail alert service in Asia Pacific have been published by Travelzoo (Asia) Limited and Travelzoo Japan K.K., under a license agreement with the Company. There is a reciprocal revenue-sharing agreement among the entities operating the *Travelzoo* business in Asia Pacific and the Company related to cross-selling audiences.

More than 2,000 companies use our services, including Air New Zealand, Apple Vacations, British Airways, Expedia, Fairmont Hotels and Resorts, Hawaiian Airlines, Iceland Air, InterContinental Hotels Group, Interstate Hotels & Resorts, Key Tours International, Liberty Travel, Princess Cruises, Starwood Hotels & Resorts Worldwide, Travelocity, United Airlines, 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 two operating segments based on geographic regions: North America and Europe. North America consists of our operations in Canada and the U.S. Europe consists of our operations in France, Germany, Spain, and the U.K. For the year ended December 31, 2014, European operations were 33% 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. As of December 31, 2014, Azzurro is the Company's largest stockholder, holding approximately 49.1% of the outstanding shares. Azzurro currently holds a proxy given to it by Holger Bartel, a director of the Company and brother of Ralph Bartel, that provides it with a total of 50.4% of the voting power.

As of December 31, 2014, there were 14,730,454 shares of common stock outstanding.

The Company was formed as a result of a combination and merger of entities founded by the Company's principal stockholder, Ralph Bartel. In 1998, Mr. Bartel founded Travelzoo.com Corporation, a Bahamas corporation, which issued approximately 5 million shares via the Internet to approximately 700,000 "Netsurfer stockholders" for no cash consideration, but subject to certain prerequisite qualifications. In April 2002, Travelzoo.com Corporation was merged into Travelzoo Inc. Holders of promotional shares of Travelzoo.com Corporation who established they had satisfied certain prerequisite qualifications were allowed a period of two years following the effective date to receive one share of Travelzoo Inc. in exchange for each share of common stock of Travelzoo.com Corporation. After April 2004, two years following the effective date, the Company ceased issuing shares to the former stockholders of Travelzoo.com Corporation; and therefore, no additional shares are reserved for issuance to any former stockholders, because their right to receive shares has now expired. 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. On April 25, 2004, the number of shares reported as outstanding was reduced from 19,425,147 to 15,309,615 to reflect actual shares issued as of the expiration date. Earnings per share calculations reflect this reduction of the number of shares reported as outstanding.

Since completion of the merger in April 2004, most states have made claims that the former "Netsurfer stockholders" of Travelzoo.com Corporation, which remained unexchanged by April 2004, represent unclaimed property subject to escheatment to the states. Although the Company's position is that such shares were a promotional incentive and were issuable only to persons who established their eligibility as stockholders in the 2002 merger, the Company determined that it was in its best interest to seek to resolve these claims made by various states.

In April 2011, the Company entered into an agreement which required a \$20.0 million cash payment to the State of Delaware resolving all claims relating to the State of Delaware's unclaimed property review, which related primarily to the Company's unexchanged promotional shares contingency. In addition, based on multiple other state claims and settlements with the Company regarding the unexchanged promotional shares contingency, the Company recorded a \$3.0 million and \$22.0 million charge in the years ended December 31, 2012 and 2013, respectively. The Company made cash payments of \$12.3 million to the settled states after completion of the required due diligence in the year ended December 31, 2013. During the year December 31, 2014, the Company made cash payments of \$3.7 million to settled states after completion of the required due diligence. During the year ended December 31, 2014, the Company settled with the remaining states and released \$7.6 million of the reserve related to potential settlements with the remaining states in connection with unexchanged promotional shares based upon the actual settlements with the remaining states. The Company has maintained estimated reserves related to the remaining settled states, which will be paid after completion of the required due diligence during the three months ending March 31, 2015.

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 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 \$6,000 for the year ended December 31, 2014.

See Note 1 to the accompanying consolidated financial statements for further information on the unexchanged promotional shares and related cash program.

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 totaled \$621.4 billion in 2013 and 78% of the domestic trips were taken for leisure purposes, according to the U.S. Travel Association. Direct spending on leisure travel in Europe by domestic and international travelers totaled \$663.7 billion in 2013 and 76% of the spending was for leisure purposes, according to the World Travel & Tourism Council. In addition, we believe that we are well positioned with our operations in North America and Europe 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 2015, BIA/Kelsey forecasts total local media revenues to reach \$139.3 billion in 2015. Online/digital will account for more than one-quarter (25.2 percent) of total local media revenues in 2015. Revenues for online/digital are expected to grow from \$31 billion in 2014 to \$35 billion in 2015, representing a 13.1 percent growth rate. 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 ground rules for online marketing, with the consumption of online advertising rapidly moving to mobile devices. BIA/Kelsey anticipates that mobile local advertising revenues will grow from \$4.3 billion in 2014 to \$6.6 billion in 2015 and local social media revenues will grow from \$2.5 billion in 2014 to \$3.6 billion in 2015.

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.

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 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.



## **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; and
- offline advertising does not allow for detailed performance tracking;
- 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 are in the process of developing a hotel booking platform that will facilitate our users to more easily book stays at hotel deals we present on our website and mobile devices.

The following table presents an overview of our products:

<b>Product</b>	<b>Content</b>	<b>Publication Schedule</b>	<b>Reach/Usage*</b>	<b>Advertiser Benefits</b>	<b>Consumer Benefits</b>
<i>Travelzoo websites</i>	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	9.0 million unique visitors per month	Broad reach, sustained exposure, targeted placements by destination and travel segment	24/7 access to deals, ability to search and browse by destination or keyword
<i>Travelzoo Top 20</i>	Popular e-mail newsletter listing 20 of the week's most outstanding deals	Weekly	23.0 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
<i>Newsflash</i>	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	22.0 million members	Regional targeting, 100% share of voice for advertiser, flexible publication schedule	Breaking news offers delivered just-in-time
<i>Local Deals and Getaway</i>	Locally-targeted 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 177 local markets	Local targeting by zip code, 100% share of voice for the local businesses, flexible publication schedule	Breaking news offers delivered just-in-time
<i>Travelzoo Network</i>	A network of third-party websites that list outstanding deals published by Travelzoo	24/7	Over 350 third-party websites	Drives qualified users with substantial distribution beyond the Travelzoo audience	Contextually relevant travel deals that have been handpicked and professionally reviewed
<i>Travelzoo Mobile Applications</i>	iPhone and Android applications that allow users to discover the best Travel, Entertainment and Local Deals.	On-demand	3.4 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.
<i>SuperSearch</i>	Travel search tool using a proprietary algorithm to recommend sites and enable one-click searching	On-demand	2.5 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
<i>Fly.com</i>	Travel search engine that enables users to find and compare the best flight, hotel and rental car options from multiple sources	On-demand	2.5 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, 2014.

## 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. 27 million members receive our e-mail newsletters, published in 11 countries worldwide, including those in Asia Pacific where our brand is operated under license. Travelzoo's website is visited by 9.0 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 2.2 million followers on Facebook and Twitter. Our mobile applications have been downloaded 3.4 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 27 million travel shoppers.
- *Global Reach.* We offer access to Internet users across the U.S., Canada, France, Germany, Spain, and the U.K.

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 (www.travelzoo.com, www.travelzoo.ca, www.travelzoo.co.uk, www.travelzoo.de, www.travelzoo.es, www.travelzoo.fr, 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.

- *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 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, 2014, 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:

Air New Zealand	Interstate Hotels & Resort
Atlantis, Paradise Island, Bahamas	Jet Luxury Resorts
Apple Vacations	Key Tours International
British Airways	Liberty Travel
CheapTickets	Lufthansa
Cirque du Soleil	Mandalay Bay Resort and Casino
Delta Air Lines	Online Vacation Center
Expedia	Pleasant Holidays
Fairmont Hotels and Resorts	Princess Cruises
Fareportal	Starwood Hotels & Resorts Worldwide
Hawaiian Airlines	TripAdvisor
Hong Kong Tourism Board	United Airlines
Hotwire	Vacation Express
Iceland Air	Virgin America
InterContinental Hotels Group	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, 2014, 2013 and 2012. 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 2014, 67% of our total revenues were generated from our North America operations, and 33% of our total revenues were generated from our European operations. See Note 12 to the accompanying consolidated financial statements.

## Sales and Marketing

As of December 31, 2014, our advertising sales force and sales support staff consisted of 142 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.

Our software is written using widely used standards, such as Visual Basic Script, and HTML, and interfaces with products from Microsoft and ITA software. We have generally standardized our hardware platform on HP servers and Cisco switches.

## **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 and Priceline that also offer advertising placements and capture consumer interest. We compete with companies like Groupon 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 Microsoft, 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.* U.S. government agencies are considering adopting regulations regarding the collection and use of personal identifying information obtained from individuals when using Internet sites or e-mail services. While we have implemented and intend to implement additional programs designed to enhance the protection of the privacy of our users, these programs may not conform to any regulations which may be adopted by these agencies. In addition, these regulatory and enforcement efforts may adversely affect our ability to collect demographic and personal information from users, which could have an adverse effect on our ability to provide advertisers with demographic information. The European Union (the “EU”) has adopted a directive that imposes restrictions on the collection and use of personal data. The directive could impose restrictions that are more stringent than current Internet privacy standards in the U.S. The directive may adversely affect our operations in Europe.

*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, travelzoo.org, travelzoo.net, 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*<sup>®</sup> and *Top 20*<sup>®</sup>. 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 are defending ourselves against current patent infringement claims as described further in Note 5 to the accompanying consolidated financial statements.

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, 2014, we had 438 employees in 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, 2014, and 2012, we generated a net income of \$16.4 million and \$18.2 million, respectively. In the year ended December 31, 2013, we incurred a net loss of \$5.0 million. Although we were profitable in 2014 and 2012, 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.***

During the third quarter of 2010, we launched our *Local Deals* format of advertising and during the second quarter of 2011, we launched our *Getaway* format of advertising, under which we sell 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.

***Recent trends showing that consumers are becoming more interested in a “pull” marketplace than a “push” marketplace have created new challenges.***

We have been successful with a “push” marketplace by inspiring people to take trips or purchase travel deals that they had not planned. We have noticed that consumers, however, have been seeking a “pull” marketplace to allow consumers the ability to search and browse for specific needs on specific dates. As we continue to invest in products, such as the hotel booking platform, to make it easier to search for our travel deals and move towards a “pull” marketplace, our results of operations could be adversely affected. Our required investment to make our website, mobile site and apps easier to search and more simple to buy or book deals create a risk that our costs and product development expenditures may exceed our revenues in the short and long term, which may materially impact our financial condition. We anticipate that our financial results will be impacted as we continue to invest in our growth through increased spending in improving our products to accommodate a “pull” marketplace.

***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. The Company's 2009 and 2010 federal income returns are 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. In addition, 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, 2014 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 planned 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 launch 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 that are outside our control. In particular, this is the case with our *Local Deals* and *Getaway* merchants, since we are selling vouchers on behalf of the merchants directly to our members as opposed to our travel business when we are only collecting the advertising fee from the advertiser and the members are booking the deal directly with the advertiser. 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 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, 2014, our cash and cash equivalents decreased by \$11.4 million to \$54.8 million, of which \$41.8 million was held outside the U.S. in certain of our foreign operations. We intend to continue to grow our business and fund our current operations using cash on hand. However, this may not be sufficient to meet our needs, including the payments required to settle escheat or tax claims, 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 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 our 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 announcement of a change. In addition, the SEC is considering a multi-year plan that could ultimately lead to the use of International Financial Reporting Standards by United States issuers in their SEC filings. Any 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.

Our revenues in Europe increased 1.3% in 2014 compared to 2013, and our operations in Europe generated an operating income before tax of \$5.7 million and \$7.7 million in 2014 and 2013, 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. 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.

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

We believe that continuing to build awareness of the *Travelzoo* and *Fly.com* brand names 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 \$7.8 million, \$5.5 million and \$5.4 million on online marketing initiatives relating to member acquisition for years ended December 31, 2014, 2013 and 2012 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 or the terrorist attacks on the U.S. in 2001 or the recent global financial crisis 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. However, our business may also benefit if travel companies increase their efforts to promote special offers or other marketing programs. 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. As of December 31, 2014, we had 438 employees, up from 436 employees as of December 31, 2013. We expect that the number of our employees will fluctuate yet continue to increase for the foreseeable future. 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 and online travel and entertainment deal publishers. We compete with large online travel agencies like Expedia and Priceline that also offer advertising placements and hotel booking platforms and capture consumer interest. 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 have and may 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. During year ended December 31, 2014, we reduced traffic spending, which reduced revenue by over \$5.0 million compared to the year ended December 31, 2013. 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, particularly Christopher Loughlin, our Chief Executive Officer. The loss or departure of any of our officers or key employees could materially adversely affect our ability to implement our business plan. We do not maintain key person life insurance for any member of our management team. In addition, we expect new members to join our management team in the future. These individuals will not previously have worked together and will be required to become integrated into our management team. If our key management personnel are not able to work together effectively or successfully, our business could be materially adversely affected.

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

We use data technology and software products from third parties 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 February 12, 2015, the closing price of our common stock on the NASDAQ Global Select Market ranged from \$8.58 to \$24.12. 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, 2014, Azzurro is the Company's largest stockholder, holding approximately 49.1% of the Company's outstanding shares. Azzurro currently holds a proxy given to it by Holger Bartel that provides it with a total of 50.4% of the voting power.

### **Risks Related to Legal Uncertainty**

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

Shareholder lawsuits for securities violations are often launched against companies whose stock price is volatile. Such lawsuits involving the Company would require management's attention to defend, which may distract attention from operating the Company. In addition, the Company may incur substantial costs to defend itself and/or settle such claims, which may be considered advisable to minimize the distraction and costs of defense. Such lawsuits would result in judgments against the Company requiring substantial payments to claimants. Such costs may materially impact our results of operations and financial condition. Between August 2011 and January 2012, numerous class action and derivative lawsuits were filed against the Company, which have since been resolved.

***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*.

***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 goodwill could be materially and adversely affected.

In addition, we may acquire personal or confidential information, including credit card information, from users of our websites and mobile applications, related to our *Local Deals*, *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.

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

The merger of Travelzoo.com Corporation into the Company became effective on April 25, 2002. Holders of promotional shares of Travelzoo.com Corporation who established they had satisfied certain prerequisite qualifications were allowed a period of two years following the effective date to receive one share of Travelzoo Inc. in exchange for each share of common stock of Travelzoo.com Corporation. After April 25, 2004, two years following the effective date, we ceased issuing shares to the former stockholders of Travelzoo.com Corporation. Many of the "Netsurfer stockholders," who had applied to receive shares of Travelzoo.com Corporation in 1998 for no cash consideration, did not elect to receive their shares which were issuable in the merger prior to the end of the two-year period. A total of 4,115,532 of our shares which had been reserved for issuance in the merger were not claimed.

As discussed under Note 1 to the accompanying consolidated financial statements, on April 21, 2011, we settled all claims by the State of Delaware relating to a previously-announced unclaimed property review relating to shares of Travelzoo which have not been claimed by former Netsurfers stockholders of Travelzoo.com Corporation, which remained unexchanged in the 2002 merger, as discussed in the preceding paragraph. Unclaimed shares which were properly issuable and which the holders state of residence was unknown, were subject to escheat claims by the State of Delaware because the Company is organized under Delaware law.

As discussed in Note 1 to the accompanying consolidated financial statements, 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 April 2011 settlement and release agreement with 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 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 these 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 year ended December 31, 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, 2013, the Company made cash payments of \$12.3 million to the settled states after completion of the required due diligence. During the year December 31, 2014, 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. During the year ended December 31, 2014, the Company released a \$7.6 million of the reserve related to potential future settlements with the remaining states in connection with unexchanged promotional shares based upon the actual settlements with the remaining states under more favorable term than was estimated. The Company has maintained estimated reserves related to the remaining settled states, which will be paid after completion of the required due diligence during the three months ending March 31, 2015.

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 \$6,000 for the year ended December 31, 2014.

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. 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. As discussed under Note 5 to the accompanying consolidated financial statements included in this report, a lawsuit was filed against us by a non-practicing entity, commonly referred to as a "patent troll", claiming that the trip-planning metasearch service available on *Fly.com* infringes one or more claims of certain asserted patents. The plaintiff has asserted similar claims against other metasearch websites, including Expedia, Orbitz, Travelocity, Priceline, Yahoo! Inc., American Express, Kayak and BookIt. 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. 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; Boston, Massachusetts; Las Vegas, Nevada; Los Angeles, California; Miami, Florida; Mountain View, California; San Diego, California; San Francisco, California; Toronto, Ontario; and Vancouver, British Columbia.

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.

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.



## 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." From December 30, 2003 to August 17, 2004, our common stock was traded on the NASDAQ SmallCap 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
<b>2014:</b>		
Fourth Quarter	\$15.86	\$12.17
Third Quarter	\$19.60	\$15.50
Second Quarter	\$23.48	\$17.09
First Quarter	\$24.75	\$20.91
<b>2013:</b>		
Fourth Quarter	\$27.16	\$20.28
Third Quarter	\$32.68	\$26.52
Second Quarter	\$29.40	\$21.15
First Quarter	\$23.88	\$18.77

On February 13, 2015, the last reported sales price of our common stock on the NASDAQ Global Select Market was \$8.58 per share.

As of February 13, 2015, there were approximately 182 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

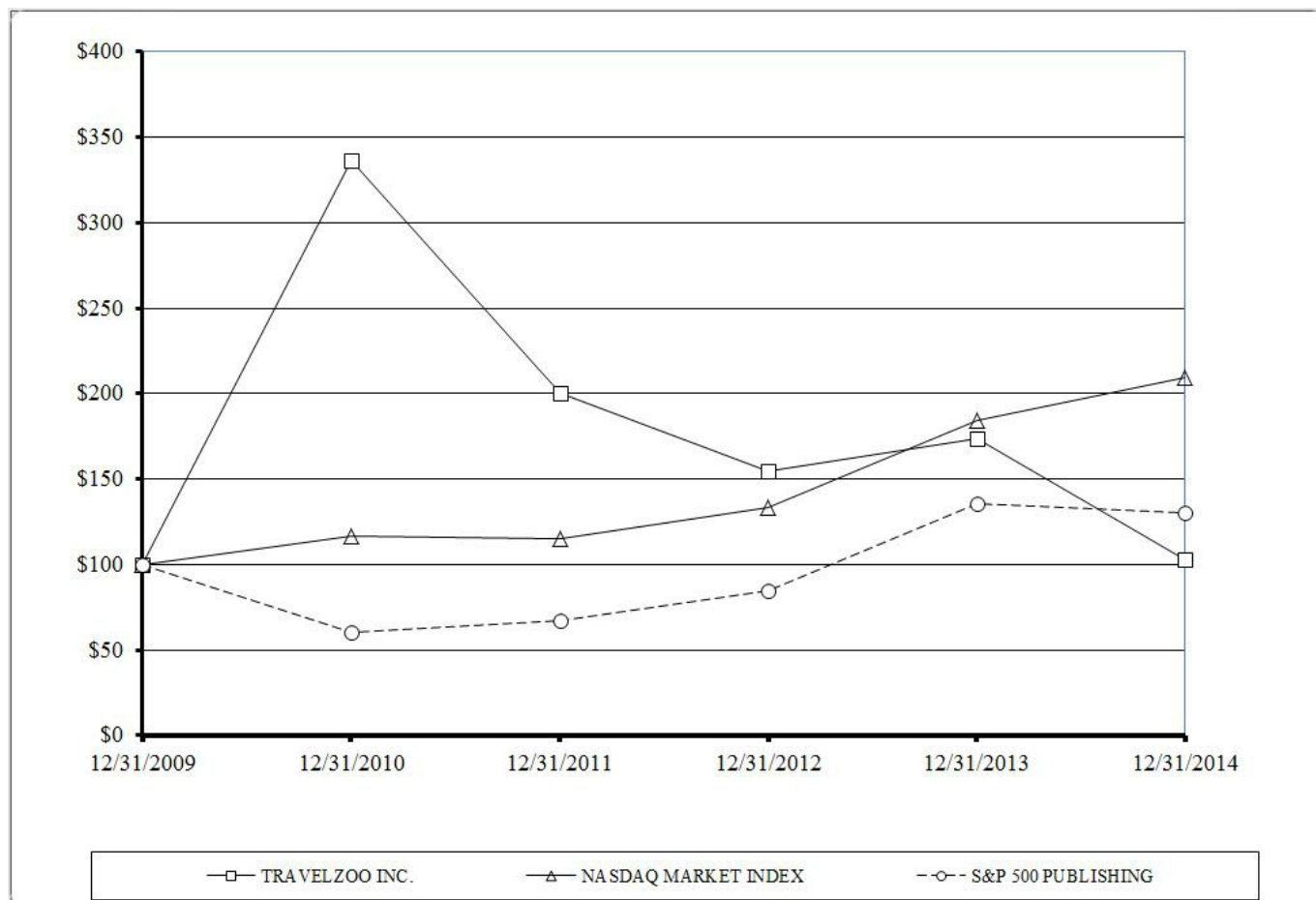
There were no unregistered sales of equity securities during fiscal year 2014.

#### Repurchases of Equity Securities

We did not purchase any of our equity securities during the three months ended December 31, 2014.

## 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, 2009, December 31, 2010, December 31, 2011, December 31, 2012, December 31, 2013, and December 31, 2014. The graph assumes that \$100 was invested on December 31, 2009 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	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Travelzoo Inc.	\$ 100	\$ 336.70	\$ 200.00	\$ 154.52	\$ 173.47	\$ 102.69
NASDAQ Market Index	\$ 100	\$ 116.91	\$ 114.81	\$ 133.07	\$ 184.06	\$ 209.71
S&P 500 Publishing	\$ 100	\$ 60.46	\$ 67.24	\$ 84.35	\$ 135.8	\$ 130.36

## Item 6. Selected Consolidated Financial Data

The selected consolidated financial data set forth below are derived from our audited consolidated financial statements. 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,				
	2014	2013	2012	2011	2010
	(In thousands, except per share data)				
Revenues	\$ 142,076	\$ 158,234	\$ 151,168	\$ 148,342	\$ 112,784
Income from operations	21,050	2,278	25,489	15,022	23,512
Net income (loss)	16,352	(5,011)	18,198	3,319	13,157
Net income (loss) per share - basic	\$ 1.11	\$ (0.33)	\$ 1.15	\$ 0.20	\$ 0.80
Net income (loss) per share - diluted	\$ 1.10	\$ (0.33)	\$ 1.14	\$ 0.20	\$ 0.80
Shares used in per share calculation — basic	14,768	15,269	15,866	16,315	16,444
Shares used in per share calculation — diluted	14,809	15,269	15,901	16,414	16,453

### Consolidated Balance Sheet Data:

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands, except per share data)				
Cash and cash equivalents	\$ 54,812	\$ 66,223	\$ 61,169	\$ 38,744	\$ 41,184
Working capital	\$ 41,185	\$ 30,912	\$ 42,654	\$ 28,411	\$ 39,563
Total assets	\$ 90,488	\$ 114,802	\$ 97,833	\$ 68,348	\$ 66,002
Stockholders' equity	\$ 39,814	\$ 31,335	\$ 43,339	\$ 34,759	\$ 45,889

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

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

## Overview

Travelzoo Inc. (the “Company”, or “Travelzoo”) is a global Internet media company. We inform over 27 million members in North America, Europe and Asia Pacific, 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. In Asia Pacific, the *Travelzoo* business is operated by Travelzoo (Asia) Limited and Travelzoo Japan K.K. under a License agreement with Travelzoo Inc. and is not owned by the Company.

Our publications and products include the *Travelzoo* websites (www.travelzoo.com, www.travelzoo.ca, www.travelzoo.co.uk, www.travelzoo.de, www.travelzoo.es, www.travelzoo.fr, 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 October 31, 2009, we sold our Asia Pacific operating segment to Azzurro Capital Inc. and its wholly-owned subsidiaries, Travelzoo (Asia) Limited and Travelzoo Japan K.K., to Azzurro Capital Inc. We have not had significant ongoing involvement with the operations of the Asia Pacific operating segment and have not had material economic interests in the Asia Pacific operating segment since the completion of the sale. Starting November 1, 2009, the *Travelzoo* websites in Asia Pacific (cn.travelzoo.com, www.travelzoo.co.jp, www.travelzoo.com.au, www.travelzoo.com.hk, www.travelzoo.com.tw, among others), the *Travelzoo Top 20* e-mail newsletters in Asia Pacific and the *Newsflash* e-mail alert service in Asia Pacific have been published by Travelzoo (Asia) Limited and Travelzoo Japan K.K., under a license agreement with the Company. There is a reciprocal revenue-sharing agreement among the entities operating the *Travelzoo* business in Asia Pacific and the Company related to cross-selling audiences. In addition, as part of the sale of the Asia Pacific operating segment in 2009, the Company obtained an option, which expires in June 2020, to repurchase the Asia Pacific business pursuant to the terms of the option agreement.

More than 2,000 companies use our services, including Air New Zealand, Apple Vacation, British Airways, Harrah’s Entertainment, Expedia, Fairmont Hotels and Resorts, Hilton Hotels, Interstate Hotels & Resorts, JetBlue Airways, Key Tours International, Liberty Travel, Marriott Hotels, Royal Caribbean, Spirit Airlines, Starwood Hotels & Resorts Worldwide, TripAdvisor, United Airlines, and Virgin Atlantic.

We have two operating segments based on geographic regions: North America and Europe. North America consists of our operations in Canada and the U.S. Europe consists of our operations in France, Germany, Spain, and the U.K. For the year ended December 31, 2014, European operations were 33% 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.

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 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 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 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. 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, 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 reviewing the performance of these products, which may result in merging the products, discontinuing or replacing one or both of them. Challenges in traffic acquisition from search engines and poor monetization on mobile devices have led to continued declines in Search revenue. As we review these products and work on their improvement, revenue from our Search products may continue 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 revenue as we expand the use of our hotel booking 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. Since the introduction of *Local Deals* in 2010 and *Getaway* in 2011, 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 the 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 and page views of our websites 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 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, and the degree of competition in our industry. We may decide to accelerate our member acquisition for various strategic and tactical reasons and, as a result, increase our marketing expenses. We expect the average cost per acquisition to increase with our increased expectations for the quality of the members we acquire. We may see a unique opportunity for a brand marketing campaign that will result in an increase of marketing expenses. In addition, there may be a significant number of members that cancel or we may cancel their subscription for various reasons, which may drive us to spend more on member acquisition in order to replace the lost members. Further, we expect to continue our strategy over time to replicate our business model in selected foreign markets to result in a significant increase in our sales and marketing expenses and have a material adverse impact on our results of operations. Due to the continued desire to grow our business both in the North America and Europe 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 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 over time and development of new advertising formats to result in a significant additional 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. In addition, we expect to incur additional costs related to the development of our hotel booking platform capabilities, which we are developing, in part, to address the shift to mobile devices.

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 business in 2009 or our State of Delaware settlement during 2011. We expect fluctuations in our income taxes from year to year and from quarter to quarter. Some of the fluctuations may be significant and have a material impact on our results of operations.

The key elements of our growth strategy include building a travel and lifestyle brand with a large, high-quality user base and offering our users products that keep pace with consumer preference and technology, such as the trend toward mobile usage by consumers. We expect to continue our efforts to grow; however, we may not grow or we may experience slower growth. Some examples of our efforts to expand our business internationally since our inception in the U.S. have been expansion to the U.K. in 2005, Canada in 2006, Germany in 2006, France in 2007 and Spain in 2008. 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 booking platform to assist in our development of a product to better serve hotels and to facilitate the development of our hotel booking 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,		
	2014	2013	2012
Revenues	100.0%	100.0 %	100.0%
Cost of revenues	12.6	11.0	10.4
Gross profit	87.4	89.0	89.6
Operating expenses:			
Sales and marketing	47.3	47.4	45.1
General and administrative	30.6	26.3	25.6
Unexchanged promotional shares	(5.3)	13.9	2.0
Total operating expenses	72.6	87.6	72.7
Income from operations	14.8	1.4	16.9
Other income	0.1	0.3	0.2
Income before income taxes	14.9	1.7	17.1
Income taxes	3.4	4.9	5.0
Net income (loss)	11.5%	(3.2)%	12.1%



## Operating Metrics

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

	Years Ended December 31,		
	2014	2013	2012
<b>North America</b>			
Total members	16,843,000	16,506,000	16,087,000
Average cost per acquisition of a new member	\$ 2.09	\$ 1.41	\$ 1.23
Revenue per member (2)	\$ 5.77	\$ 6.96	\$ 6.95
Revenue per employee (3)	\$ 340	\$ 398	\$ 445
Mobile application downloads	2,312,000	1,653,000	992,000
Social media followers	1,809,000	1,483,000	661,000
<b>Europe</b>			
Total members	7,347,000	6,768,000	6,371,000
Average cost per acquisition of a new member	\$ 3.53	\$ 2.19	\$ 2.54
Revenue per member (2)	\$ 6.93	\$ 7.26	\$ 7.30
Revenue per employee (3)	\$ 297	\$ 299	\$ 291
Mobile application downloads	1,192,000	814,000	430,000
Social media followers	494,000	393,000	117,000
<b>Consolidated</b>			
Total members (1)	24,190,000	23,274,000	22,458,000
Average cost per acquisition of a new member	\$ 2.66	\$ 1.66	\$ 1.70
Revenue per member (2)	\$ 6.10	\$ 7.05	\$ 7.04
Revenue per employee (3)	\$ 324	\$ 363	\$ 388
Mobile application downloads	3,504,000	2,467,000	1,422,000
Social media followers	2,303,000	1,876,000	778,000

- (1) In Asia Pacific, the *Travelzoo* business is operated by Travelzoo (Asia) Limited and Travelzoo Japan K.K. under a license agreement with Travelzoo Inc. The total member amounts exclude Asia Pacific members of 3,500,000, 3,600,000 and 3,100,000 for the years ended December 31, 2014, 2013 and 2012, respectively.
- (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. Search revenue includes *SuperSearch* and *Fly.com*. Local revenue includes *Local Deals* vouchers and entertainment offers (vouchers and direct bookings).

	Year Ended December 31,		
	2014	2013	2012
North America			
Travel	\$ 59,160	\$ 63,812	\$ 56,636
Search	14,857	20,704	23,101
Local	21,166	27,439	29,050
Total North America revenues	\$ 95,183	\$ 111,955	\$ 108,787
Europe			
Travel	\$ 37,339	\$ 34,635	\$ 29,844
Search	2,413	3,264	4,149
Local	7,141	8,380	8,388
Total Europe revenues	\$ 46,893	\$ 46,279	\$ 42,381
Consolidated			
Travel	\$ 96,499	\$ 98,447	\$ 86,480
Search	17,270	23,968	27,250
Local	28,307	35,819	37,438
Total revenues	\$ 142,076	\$ 158,234	\$ 151,168

### North America

North America revenues decreased \$16.8 million 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 \$6.3 million was primarily due to the decreased number of *Local Deals* vouchers sold. The decrease in Search revenue of \$5.8 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 \$4.6 million was primarily due to the decreased number of *Getaways* vouchers sold and paid clicks.

North America revenues increased \$3.2 million in 2013 compared to 2012. This increase was primarily due to an increase in Travel revenues offset by a decrease in Search and Local revenues. The increase in Travel revenue of \$7.2 million was primarily due to an increase in revenues from *Getaways* due to increased number of *Getaways* vouchers sold and an increase in revenues from travel publications due to increased number of e-mails delivered. The decrease in Search revenue of \$2.4 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 Local revenues of \$1.6 million was primarily due to the decreased number of *Local Deals* vouchers sold and a decrease in the average take rate earned on vouchers sold and a decrease in the average take rate earned by us from the merchants for the voucher sold.

### Europe

Europe revenues increased \$615,000 in 2014 compared to 2013. This increase was primarily due to an increase in Travel revenues offset by a decrease in Local and Search revenues. The increase in Travel revenue of \$2.7 million was primarily due to an increase in revenues from travel publications due to an increased number of e-mails delivered. The decrease in Local revenues of \$1.2 million was primarily due to the decreased number of *Local Deals* vouchers sold. The decrease in Search revenue of \$851,000 was primarily due to the decreased number of clicks that generate revenue as a result of decreased spending on traffic acquisition.

Europe revenues increased \$3.9 million in 2013 compared to 2012. This increase was primarily due to an increase in Travel revenues offset by a decrease in Search revenue. The increase in Travel revenue of \$4.8 million was primarily due to an increase from *Getaway* due to increased number of *Getaway* vouchers sold and an increase in revenues from travel publications due to an increased number of e-mails delivered. The decrease in Search revenue of \$885,000 was primarily due to the decreased number of clicks that generate revenue as a result of decreased spending on traffic acquisition.

For 2014, 2013 and 2012, none of our customers accounted for 10% or more of our revenue.

Foreign currency movements relative to the U.S. dollar positively impacted our revenues from our operations in Europe by approximately \$1.7 million for 2014. Foreign currency movements relative to the U.S. dollar negatively impacted our revenues from our operations in Europe by approximately \$1.4 million and \$1.7 million for 2013 and 2012, respectively.

### ***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 booking, and salary expenses associated with network operations and customer service staff. Cost of revenues was \$17.9 million, \$17.4 million and \$15.7 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Cost of revenue increased \$504,000 in 2014 compared to 2013. This increase was primarily due to \$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 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*.

Cost of revenue increased \$1.7 million in 2013 compared to 2012. This increase was primarily due to an increase of \$1.1 million in payments made to third-party partners of the *Travelzoo Network*, an increase of \$488,000 in *Local Deals* and *Getaway* costs including a \$545,000 increase in credit card fees and a \$449,000 increase in salary and employee related expenses due primarily to an increase in customer service headcount, offset by an \$819,000 decrease in member refunds.

## ***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 \$67.2 million, \$74.9 million and \$68.2 million for 2014, 2013 and 2012, respectively. Advertising expenses accounted for 30%, 36% and 41%, 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 \$7.6 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.

Sales and marketing expenses increased \$6.6 million in 2013 compared to 2012. The increase was primarily due to an \$8.8 million increase in salary and employee related expenses due primarily to an increase in headcount, offset by a \$1.6 million decrease in Search traffic acquisition costs. These increases in salary and employee related expenses were aligned with our investments intended to drive future growth, which were focused on increasing sales headcount, our analytic capabilities and our audience, both in terms of number of member and the size of our audience from growing sources such as mobile devices and social media.

### ***General and Administrative***

General and administrative expenses consist primarily of compensation for administrative, executive, and product development staff, fees for professional services, rent, bad debt expense, amortization of intangible assets, and general office expense. General and administrative expenses were \$43.5 million, \$41.7 million and \$38.7 million for 2014, 2013 and 2012, respectively.

General and administrative expenses increased \$1.8 million in 2014 compared to 2013. The increase was primarily due to a \$1.8 million increase in salary and employee related expenses due in part to an increase in product development headcount and professional services costs.

General and administrative expenses increased \$3.0 million in 2013 compared to 2012. The increase was primarily due to a \$1.9 million increase in salary and employee related expenses due primarily to an increase in product development headcount, and a \$1.2 million increase in rent, office and insurance expense due to the continuing expansion of our business.

### ***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 settled with the remaining states and made cash payments of \$3.7 million to the settled states after completion of the required due diligence. During the year ended December 31, 2014, the Company released a \$7.6 million of the reserve related to potential future settlements with the remaining states in connection with unexchanged promotional shares based upon the actual settlements with the remaining states under more favorable term than was estimated.

See Note 1 to the accompanying consolidated financial statements for further information on the unexchanged promotional shares contingency.

### ***Other Income***

Other income consisted primarily of interest earned on cash, cash equivalents and restricted cash as well as income from Travelzoo Asia Pacific. Other income was \$141,000, \$429,000 and \$309,000 for 2014, 2013 and 2012, respectively. Other income decreased \$288,000 from 2013 to 2014. This decrease was primarily due to lower income related to Travelzoo Asia Pacific and decreased interest income due to lower cash balances. Other income increased \$120,000 from 2012 to 2013. This increase was primarily due to higher income related to Travelzoo Asia Pacific and increased interest income due to higher cash balances.

### ***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 was \$4.8 million, \$7.7 million and \$7.6 million for 2014, 2013 and 2012, respectively. Our effective tax rate was 23%, 285% and 29% for 2014, 2013 and 2012, respectively.

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 13%. 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 254%. 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 Canada and Europe, statutory tax rate changes that may occur and the need for valuation allowances on certain tax assets, if any.

The total amount of the valuation allowance at December 31, 2014 decreased \$1.7 million from the amount recorded as of December 31, 2013, primarily due to expiration of capital loss carryforward as the tax benefits was not utilized.

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 \$4.1 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 \$570,000 at December 31, 2014.

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. 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. These examinations may lead to ordinary course adjustments or proposed adjustments to our taxes or our net operating income. 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

### North America

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Revenues	\$ 95,183	\$ 111,955	\$ 108,787
Income from operations	\$ 7,679	\$ 16,567	\$ 21,481
Income from operations as a % of revenues	8%	15%	20%

North America net revenues decreased \$16.8 million in 2014 compared to 2013 (see "Revenues" above). North America expenses decreased \$7.3 million from 2013 to 2014. 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.

North America net revenues increased \$3.2 million in 2013 compared to 2012 (see "Revenues" above). North America expenses increased \$8.2 million from 2013 to 2014. This increase was primarily due to an \$8.1 million increase in salary and employee related expenses due primarily to a headcount increase.

### Europe

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Revenues	\$ 46,893	\$ 46,279	\$ 42,381
Income from operations	\$ 5,788	\$ 7,710	\$ 7,008
Income from operations as a % of revenues	12%	17%	17%

Europe net revenues increased \$615,000 in 2014 compared to 2013 (see "Revenues" above). Europe expenses increased \$2.2 million from 2013 to 2014. This increase was primarily due to a \$1.8 million increase in member acquisition costs.

Europe net revenues increased \$3.9 million in 2013 compared to 2012 (see "Revenues" above). Europe expenses increased \$3.5 million from 2013 to 2014. This increase was primarily due to a \$2.8 million increase in salary and employee related expense due primarily to a headcount increase, and a \$616,000 increase in cost of revenue primarily related to *Local Deals* and *Getaways* credit card fees and customer service.

Foreign currency movements relative to the U.S. dollar positively impacted our income from our operations in Europe by approximately \$325,000 for 2014. Foreign currency movements relative to the U.S. dollar negatively impacted our income from our operations in Europe by approximately \$55,000 and \$16,000 for 2013 and 2012, respectively.

The Company had inter-company loans between the U.S. and certain foreign operations, which are denominated in U.S. dollars and held by entities with non-U.S. functional currencies. These inter-company loans were repaid during the year ended December 31, 2014.

## Liquidity and Capital Resources

As of December 31, 2014, we had \$54.8 million in cash and cash equivalents, of which \$41.8 million was held outside the U.S. in certain of our foreign operations. If these assets are distributed to the U.S., we may be subject to additional U.S. taxes in certain circumstances. Cash and cash equivalents decreased from \$66.2 million as of December 31, 2013 primarily as a result of cash used in financing, investing activities and the 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,		
	2014	2013	2012
	( In thousands)		
Net cash provided by operating activities	\$ 1,530	\$ 16,852	\$ 36,700
Net cash used in investing activities	(3,060)	(3,675)	(3,693)
Net cash used in financing activities	(6,334)	(8,452)	(11,510)
Effect of exchange rate changes on cash and cash equivalents	(3,547)	329	928
Net increase (decrease) in cash and cash equivalents	<u>\$ (11,411)</u>	<u>\$ 5,054</u>	<u>\$ 22,425</u>

Net cash provided by operating activities is net income adjusted for certain non-cash items and changes in assets and liabilities. Net cash provided by operating activities was \$1.5 million for 2014, which consisted of a net income of \$16.4 million, adjustments for non-cash items of \$4.5 million and a \$19.3 million decrease in cash from changes in working capital. Adjustments for non-cash items primarily consisted of \$2.8 million of depreciation and amortization expense on property and equipment and \$982,000 of stock-based compensation expense net of forfeitures. In addition, the increase in cash from changes in working capital activities primarily consisted of \$11.3 million in accrued expenses for unexchanged promotional shares, \$6.9 million in accounts payable, \$1.2 million in income taxes receivable and \$1.1 million in accounts receivable.

Net cash provided by operating activities was \$16.8 million for 2013, which consisted of a net loss of \$5.0 million, adjustments for non-cash items of \$5.1 million and a \$16.8 million increase in cash from changes in working capital. Adjustments for non-cash items primarily consisted of \$1.4 million of stock-based compensation expense and \$3.0 million of depreciation and amortization expense on property and equipment. In addition, the increase in cash from changes in working capital activities primarily consisted of \$9.7 million in accrued expenses for unexchanged promotional shares, \$4.0 million in income taxes receivable and \$2.8 million in accounts payable.

Net cash provided by operating activities was \$36.7 million for 2012, which consisted of a net income of \$18.2 million, adjustments for non-cash items of \$1.7 million and a \$16.8 million increase in cash from changes in working capital. Adjustments for non-cash items primarily consisted of \$1.2 million of stock-based compensation expense and \$2.5 million of depreciation and amortization expense on property and equipment, offset by \$2.2 million of deferred income taxes. In addition, the increase in cash from changes in working capital activities primarily consisted of \$6.5 million in accounts payable, \$5.2 million in income taxes receivable, \$3.0 million in accrued expenses for unexchanged promotional shares and \$2.6 million in accrued expenses.

Cash paid for income tax net of refunds received in 2014, 2013 and 2012 was \$4.6 million, \$2.6 million and \$4.9 million, respectively.

Net cash used in investing activities for 2014, 2013 and 2012 was \$3.1 million, \$3.7 million and \$3.7 million, respectively. The cash used in investing activities in 2014 was due primarily to \$3.3 million in purchases of property and equipment, offset by \$200,000 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 \$1.8 million release of restricted cash. Net cash used in investing activities in 2012 were due primarily to purchases of property and equipment.

Net cash used in financing activities for 2014, 2013 and 2012 was \$6.3 million, \$8.5 million and \$11.5 million, respectively, which was due primarily to repurchases of our common stock.

In April 2011, the Company entered into an agreement which required a \$20.0 million cash payment to the State of Delaware resolving all claims relating to the State of Delaware's unclaimed property review, which related primarily to the Company's unexchanged promotional shares contingency. In addition, based on multiple other state claims and settlements with the Company regarding the unexchanged promotional shares contingency, the Company made a \$12.3 million cash payment to the settled states after completion of the required due diligence in the year ended December 31, 2013 and \$3.7 million cash payments in the year ended December 31, 2014. 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. During the year ended December 31, 2014, the Company released a \$7.6 million of the reserve related to potential future settlements with the remaining states in connection with unexchanged promotional shares based upon the actual settlements with the remaining states under more favorable term than was estimated. The Company has maintained estimated reserves related to the remaining settled states, which will be paid after completion of the required due diligence during the three months ending March 31, 2015.

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.

See Note 1 to the accompanying consolidated financial statements for further information on the unexchanged promotional shares contingency and related cash program.

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 to former stockholders of Travelzoo.com Corporation or to their original domicile state as unclaimed property, 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, 2014 (in thousands):

	2015	2016	2017	2018	2019	Thereafter	Total
Operating leases	\$ 5,113	\$ 4,251	\$ 3,702	\$ 3,213	\$ 2,869	\$ 10,312	\$ 29,460
Purchase obligations	1,271	529	—	—	—	—	1,800
Total commitments	\$ 6,384	\$ 4,780	\$ 3,702	\$ 3,213	\$ 2,869	\$ 10,312	\$ 31,260

We also have contingencies related to net unrecognized tax benefits, including interest, of approximately \$10.9 million as of December 31, 2014. 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 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.

### ***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, no revenue is recognized unless persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collection is deemed reasonably assured. The Company evaluates each of these criteria as follows:

- *Evidence of an arrangement.* We consider an insertion order signed by the advertiser or its agency to be evidence of an arrangement.
- *Delivery.* Delivery is considered to occur when the advertising has been displayed 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 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 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, 2014, 2013 and 2012, our effective tax rates were 23%, 285% and 29%, 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, state unclaimed property claims and lawsuits, including a patent infringement lawsuit. Please refer to Note 5 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 has no outstanding debt and 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. We are exposed to foreign currency risk associated with fluctuations of these currencies as the financial position and operating results of our operations in 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, 2014, 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, 2014. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in an incremental \$221,000 foreign exchange loss for the year ended December 31, 2014.

**Item 8. *Financial Statements and Supplementary Data***

**TRAVELZOO INC.  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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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, 2014 and 2013, 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, 2014. We also have audited Travelzoo's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (1992)* 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, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, 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, 2014, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by COSO.

/s/ KPMG LLP

Santa Clara, California  
February 13, 2015

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

	December 31, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 54,812	\$ 66,223
Accounts receivable, less allowance for doubtful accounts of \$436 and \$428 as of December 31, 2014 and 2013, respectively	14,608	13,986
Income tax receivable	3,756	2,656
Deferred tax assets	1,311	1,143
Prepaid expenses and other	2,684	3,598
Restricted cash	—	200
Funds held for reverse/forward stock split	192	13,668
Total current assets	77,363	101,474
Deposits	1,087	1,168
Deferred tax assets	1,460	2,032
Restricted cash	1,393	1,479
Property and equipment, net	9,022	8,245
Intangible assets, net	163	404
Total assets	\$ 90,488	\$ 114,802
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 23,008	\$ 31,766
Accrued expenses and other	9,943	10,824
Deferred revenue	1,192	1,578
Income tax payable	574	—
Reserve for unexchanged promotional shares	1,393	12,726
Payable to shareholders for reverse/forward stock split	192	13,668
Total current liabilities	36,302	70,562
Long-term tax liabilities	10,936	10,436
Long-term deferred rent and other	3,436	2,469
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; 15,801 shares issued, 14,730 and 14,991 shares outstanding as of December 31, 2014 and December 31, 2013)	163	163
Treasury stock (at cost, 1,071 shares and 810 shares at December 31, 2014 and 2013, respectively)	(21,517)	(15,662)
Additional paid-in capital	11,043	10,247
Retained earnings	53,122	37,117
Accumulated other comprehensive loss	(2,997)	(530)
Total stockholders' equity	39,814	31,335
Total liabilities and stockholders' equity	\$ 90,488	\$ 114,802

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
Revenues	\$ 142,076	\$ 158,234	\$ 151,168
Cost of revenues	17,906	17,402	15,745
Gross profit	124,170	140,832	135,423
Operating expenses:			
Sales and marketing	67,233	74,870	68,242
General and administrative	43,470	41,684	38,692
Unexchanged promotional shares	(7,583)	22,000	3,000
Total operating expenses	103,120	138,554	109,934
Income from operations	21,050	2,278	25,489
Other income	141	429	309
Income before income taxes	21,191	2,707	25,798
Income taxes	4,839	7,718	7,600
Net income (loss)	\$ 16,352	\$ (5,011)	\$ 18,198
Basic net income (loss) per share	\$ 1.11	\$ (0.33)	\$ 1.15
Diluted net income (loss) per share	\$ 1.10	\$ (0.33)	\$ 1.14
Shares used in computing basic net income (loss) per share	14,768	15,269	15,866
Shares used in computing diluted net income (loss) per share	14,809	15,269	15,901

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
Net income (loss)	\$ 16,352	\$ (5,011)	\$ 18,198
Other comprehensive income (loss):			
Foreign currency translation adjustment	(2,467)	207	685
Total comprehensive income (loss)	\$ 13,885	\$ (4,804)	\$ 18,883

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, 2011	15,962	\$ 164	\$ (15,123)	\$ 7,656	\$ 43,484	\$ (1,422)	\$ 34,759
Stock-based compensation expense	—	—	—	1,207	—	—	1,207
Retirement of treasury stock	(161)	(1)	18,735	—	(18,734)	—	—
Repurchase of common stock	(439)	—	(11,510)	—	—	—	(11,510)
Foreign currency translation adjustment	—	—	—	—	—	685	685
Net income	—	—	—	—	18,198	—	18,198
Balances, December 31, 2012	15,362	163	(7,898)	8,863	42,948	(737)	43,339
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	—	—	—	—	—	207	207
Net loss	—	—	—	—	(5,011)	—	(5,011)
Balances, December 31, 2013	14,991	163	(15,662)	10,247	37,117	(530)	31,335
Stock-based compensation expense	—	—	—	982	—	—	982
Income tax impact from stock options	—	—	—	(186)	—	—	(186)
Repurchase of common stock	(261)	—	(5,855)	—	—	—	(5,855)
Proceeds from sale of shares fractionalized from reverse/forward stock split, including transaction costs	—	—	—	—	(347)	—	(347)
Foreign currency translation adjustment	—	—	—	—	—	(2,467)	(2,467)
Net income	—	—	—	—	16,352	—	16,352
Balances, December 31, 2014	14,730	\$ 163	\$ (21,517)	\$ 11,043	\$ 53,122	\$ (2,997)	\$ 39,814

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 16,352	\$ (5,011)	\$ 18,198
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	2,824	2,980	2,539
Provision for losses on accounts receivable	40	(29)	162
Stock-based compensation	982	1,384	1,207
Deferred income tax	304	706	(2,178)
Impairment of software	249	—	—
Net foreign currency effect	68	33	(4)
Changes in operating assets and liabilities:			
Accounts receivable	(1,154)	(173)	(285)
Income tax receivable	(1,114)	4,042	5,171
Prepaid expenses and other	393	(1,108)	(391)
Accounts payable	(6,883)	2,826	6,475
Reserve for unexchanged promotional shares	(11,333)	9,726	3,000
Accrued expenses	(427)	1,515	2,568
Income tax payable	608	(6)	(285)
Other non-current liabilities	621	(33)	523
Net cash provided by operating activities	<u>1,530</u>	<u>16,852</u>	<u>36,700</u>
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(3,260)	(5,461)	(2,744)
Purchases of intangible asset	—	—	(677)
Release (increase) of restricted cash	200	1,786	(272)
Net cash used in investing activities	<u>(3,060)</u>	<u>(3,675)</u>	<u>(3,693)</u>
<b>Cash flows from financing activities:</b>			
Repurchase of common stock	(5,855)	(7,764)	(11,510)
Reverse/forward stock split, including transaction costs	(479)	(688)	—
Net cash used in financing activities	<u>(6,334)</u>	<u>(8,452)</u>	<u>(11,510)</u>
Effect of exchange rate changes on cash and cash equivalents	(3,547)	329	928
Net increase (decrease) in cash and cash equivalents	(11,411)	5,054	22,425
Cash and cash equivalents at beginning of year	66,223	61,169	38,744
Cash and cash equivalents at end of year	<u>\$ 54,812</u>	<u>\$ 66,223</u>	<u>\$ 61,169</u>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for income taxes, net	\$ 4,606	\$ 2,609	\$ 4,937
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.

**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 Internet media company. We inform over 27 million members in North America, Europe and Asia Pacific, 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. In Asia Pacific, the *Travelzoo* business is operated by Travelzoo (Asia) Limited and Travelzoo Japan K.K. under a license agreement with Travelzoo Inc. and is not owned by the Company.

Our publications and products include the *Travelzoo* websites (www.travelzoo.com, www.travelzoo.ca, www.travelzoo.co.uk, www.travelzoo.de, www.travelzoo.es, www.travelzoo.fr, 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.

Since November 1, 2009, the *Travelzoo* websites in Asia Pacific (cn.travelzoo.com, www.travelzoo.co.jp, www.travelzoo.com.au, www.travelzoo.com.hk, www.travelzoo.com.tw, among others), the *Travelzoo Top 20* e-mail newsletters in Asia Pacific and the *Newsflash* e-mail alert service in Asia Pacific have been published by Travelzoo (Asia) Limited and Travelzoo Japan K.K., wholly owned subsidiaries of Azzurro Capital Inc., under a license agreement with the Company. There is a reciprocal revenue-sharing agreement among the entities operating the *Travelzoo* business in Asia Pacific and the Company related to cross-selling audiences.

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, 2014, Azzurro is the Company’s largest stockholder, holding approximately 49.1% of the outstanding shares. Azzurro currently holds a proxy given to it by Holger Bartel that provides it with a total of 50.4% of the voting power.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. 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. Certain prior period amounts have been reclassified to conform to current year presentation.

The Company was formed as a result of a combination and merger of entities founded by the Company’s majority stockholder, Ralph Bartel. In 1998, Mr. Bartel founded Travelzoo.com Corporation, a Bahamas corporation, which issued 5,155,874 shares via the Internet to approximately 700,000 “Netsurfer stockholders” for no cash consideration, but subject to certain conditions as referred to below. In 1998, Mr. Bartel also founded Silicon Channels Corporation, a California corporation, to operate the *Travelzoo* website. During 2001, Travelzoo Inc. was formed as a subsidiary of Travelzoo.com Corporation, and Mr. Bartel contributed all of the outstanding shares of Silicon Channels Corporation to Travelzoo Inc. in exchange for 8,129,273 shares of Travelzoo Inc. and options to acquire an additional 2,158,349 shares at \$1.00. Mr. Bartel exercised these options in January 2009.

In April 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. The records of Travelzoo.com Corporation showed that, assuming all of the shares applied for by the Netsurfer stockholders were validly issued, there were 11,295,874 shares of Travelzoo.com Corporation outstanding. As of April 25, 2004, two years following the effective date of the merger, 7,180,342 shares of Travelzoo.com Corporation had been exchanged for shares of Travelzoo Inc. Prior to that date, the remaining shares which were available for issuance pursuant to the merger agreement were also included in the issued and outstanding common stock of Travelzoo Inc. and included in the calculation of basic and diluted earnings per share. After April 25, 2004, the Company ceased issuing shares to the former stockholders of Travelzoo.com Corporation; and therefore, no additional shares are reserved for issuance to any former stockholders, because their right to receive shares has now expired. 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. On April 25, 2004, the number of shares reported as outstanding was reduced from 19,425,147 to 15,309,615 to reflect actual shares issued as of the expiration date. Earnings per share calculations reflect this reduction of the number of shares reported as outstanding. As of December 31, 2014, there were 14,730,454 shares of common stock outstanding.

On April 21, 2011, the Company entered into an agreement with the State of Delaware resolving all claims relating to an unclaimed property review which began in 2010. 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 Netsurfer stockholders of Travelzoo.com, which remained unexchanged in the 2002 merger, as discussed in the preceding paragraph. 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 stockholders, the Company determined that it was in its best interest to promptly resolve all claims relating to the unclaimed property review. The Company made a \$20.0 million cash payment to the State of Delaware on April 27, 2011 and received a complete release of those claims from the State of Delaware.

Since March 2012, the Company became subject to unclaimed property reviews by most of the other states in the United States. The auditing firm representing these states in the reviews has presented to the Company preliminary findings, which relate primarily to the promotional shares which remained unexchanged in the 2002 merger that 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 for the contingency related to the promotional shares which remained unexchanged in the 2002 merger.

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 year ended December 31, 2013, the Company recorded a \$22.0 million charge related to settlements it entered into and for potential future settlements with the remaining states. During the year ended December 31, 2013, the Company made cash payments of \$12.3 million to the settled states after completion of the required due diligence. During the year ended December 31, 2014, 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. During the year ended December 31, 2014, the Company released \$7.6 million of the reserve related to potential future settlements with the remaining states in connection with unexchanged promotional shares based upon the actual settlements with the remaining states under more favorable terms than previously estimated. As of December 31, 2014, the Company has maintained estimated reserves related to the remaining settled states, which will be paid after completion of the required due diligence during the three months ending March 31, 2015.

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 \$6,000 for the year ended December 31, 2014.

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.

### **(b) Revenue Recognition**

The Company's revenue consists primarily of advertising sales. Advertising revenues are principally derived from the sale of advertising in North America and Europe 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.

#### ***(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 \$20.0 million, \$26.9 million and \$28.3 million for years ended December 31, 2014, 2013 and 2012, respectively. In the years ended December 31, 2014, 2013 and 2012, approximately \$14.9 million, \$19.2 million, and \$19.6 million, respectively, of advertising services were purchased from the Company's advertisers under non-barter agreements and recorded in sales and marketing expense.

### ***(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 provisions of the FASB 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, 2013 and 2012.

### ***(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, 2014, 2013 and 2012 was \$982,000, \$1.4 million and \$1.2 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, 2014, the Company had one customer that accounted for 11% of accounts receivable. As of December 31, 2013, the Company did not have any customers that accounted for 10% or more of its accounts receivable.

***(n) Recent Accounting Pronouncements***

In July 2013, the Financial Accounting Standards Board ("FASB") issued an accounting standard update that clarifies the presentation of an unrecognized tax benefit as either a reduction of a deferred tax asset or as a liability depending on specific facts and circumstances. This accounting standard update was effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective application is permitted. This accounting standard update became effective for the Company in the first quarter of fiscal year 2014. 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 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 will be effective for the Company beginning in the first quarter of fiscal year 2015. 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 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, 2017. 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 beginning in the first quarter of fiscal year 2017. 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.

**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,		
	2014	2013	2012
<b>Basic net income (loss) per share:</b>			
Net income (loss)	\$ 16,352	\$ (5,011)	\$ 18,198
Weighted average common shares	14,768	15,269	15,866
Basic net income (loss) per share	\$ 1.11	\$ (0.33)	\$ 1.15
<b>Diluted net income (loss) per share:</b>			
Net income (loss)	\$ 16,352	\$ (5,011)	\$ 18,198
Weighted average common shares	14,768	15,269	15,866
Effect of dilutive securities: stock options	41	—	35
Diluted weighted average common shares	14,809	15,269	15,901
Diluted net income (loss) per share	\$ 1.10	\$ (0.33)	\$ 1.14

For the years ended December 31, 2014, 2013 and 2012, options to purchase 125,000, 475,000 and 100,000 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, 2014 and 2013 (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, 2014				
Cash	\$ 54,812	\$ 54,812	\$ —	\$ —
Total cash and cash equivalents	\$ 54,812	\$ 54,812	\$ —	\$ —
Certificates of deposit	\$ 675	\$ —	\$ 675	\$ —
Merchant bank deposit	718	718	—	—
Total restricted cash and cash equivalent	\$ 1,393	\$ 718	\$ 675	\$ —
Balance at December 31, 2013				
Cash	\$ 65,490	\$ 65,490	\$ —	\$ —
Money market funds	733	733	—	—
Total cash and cash equivalents	\$ 66,223	\$ 66,223	\$ —	\$ —
Certificates of deposit	\$ 875	\$ —	\$ 875	\$ —
Merchant bank deposit	804	804	—	—
Total restricted cash and cash equivalent	\$ 1,679	\$ 804	\$ 875	\$ —

At December 31, 2014 and 2013, 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.

There have been no transfers and no changes in valuation methods for these assets or liabilities for the years ended December 31, 2014 and 2013.

**Note 4: Balance Sheet Components**

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

	December 31,	
	2014	2013
Prepaid expenses	\$ 2,038	\$ 2,172
Other current assets	646	1,426
Total prepaid expenses and other	<u>\$ 2,684</u>	<u>\$ 3,598</u>

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

	December 31,	
	2014	2013
Computer hardware and software	\$ 3,830	\$ 3,543
Office equipment and office furniture	9,398	8,923
Capitalized internal-use software and website development	3,181	2,484
Leasehold improvements	5,126	4,300
	<u>21,535</u>	<u>19,250</u>
Less accumulated depreciation and amortization	(12,513)	(11,005)
Total	<u>\$ 9,022</u>	<u>\$ 8,245</u>

Depreciation expense was \$2.8 million, \$2.6 million, and \$2.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Amortization of capitalized internal-use software and website development costs was \$192,000, zero and \$31,000 for the years ended December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014, capitalized internal-use software and website development costs include \$917,000 of in process construction and development expected to be deployed in 2015.

Intangible assets consist of the following (in thousands):

	December 31,	
	2014	2013
Internet domain names and technology	\$ 2,772	\$ 2,813
Accumulated amortization	(2,609)	(2,409)
Total	<u>\$ 163</u>	<u>\$ 404</u>

Intangible assets have a useful life of 3 to 5 years. For the years ended December 31, 2014, 2013 and 2012, amortization expense was \$231,000, \$585,000, and \$406,000, respectively.

Future expected amortization expense related to intangible assets at December 31, 2014 is as follows (in thousands):

2015	\$ 163
Total	<u>\$ 163</u>

The expected amortization expense is an estimate. Actual amounts of amortization expense may differ from estimated amounts due to additional intangible asset acquisitions, impairment of intangible assets, accelerated amortization of intangible assets and other events.

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, 2012	\$ 400	\$ 893
Additions — charged to costs and expenses, or contra revenue, net	304	2,275
Deductions — recoveries of amounts previously charged-off	—	—
Deductions — write-offs	(206)	(2,178)
Balance at December 31, 2012	498	990
Additions — charged to costs and expenses, or contra revenue, net	77	818
Deductions — recoveries of amounts previously charged-off	(21)	—
Deductions — write-offs	(126)	(1,052)
Balance at December 31, 2013	428	756
Additions — charged to costs and expenses, or contra revenue, net	158	1,086
Deductions — recoveries of amounts previously charged-off	(118)	—
Deductions — write-offs	(32)	(1,134)
Balance at December 31, 2014	<u>\$ 436</u>	<u>\$ 708</u>

*Local Deals* and *Getaway* merchant payable included in accounts payable was \$18.1 million and \$27.2 million, as of December 31, 2014 and 2013, respectively.

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

	December 31,	
	2014	2013
Accrued advertising expense	\$ 2,687	\$ 2,859
Accrued compensation expense	4,090	4,718
Reserve for member refunds	708	756
Other accrued expenses	2,077	2,210
Deferred rent	381	281
Total accrued expenses and other	<u>\$ 9,943</u>	<u>\$ 10,824</u>

## Note 5: Commitments and Contingencies

On September 28, 2012, Metasearch Systems, LLC filed a lawsuit in the United States District Court for the Eastern District of Delaware against Travelzoo Inc. d/b/a *Fly.com* alleging infringement of several U.S. patents. Metasearch Systems alleges that the trip-planning metasearch service available on *Fly.com* infringes one or more claims of the asserted patents. During September 2012, Metasearch Systems filed similar lawsuits against several of Travelzoo's competitors including Expedia, Inc., Orbitz Worldwide, Inc., Travelocity.com, LP, Priceline.com, Inc., Yahoo! Inc., American Express Company, KAYAK Software Corp., and BookIt.com. The action seeks unspecified damages and we are unable to estimate the possible loss or range of losses that could potentially result from the action. The Company believes that the action is without merit and intends to defend the suits vigorously.

On April 21, 2011, the Company entered into an agreement with the State of Delaware resolving all claims relating to an unclaimed property review which began in 2010. The primary issue raised in the preliminary findings from the review, received by the Company on April 12, 2011, concerned the promotional shares, which remained unexchanged in the 2002 merger (unexchanged promotional shares) as discussed further in Note 1. 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 established their eligibility as stockholders, the Company determined that it was in its best interest to promptly resolve all claims relating to the unclaimed property review. 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.

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 merger 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 year ended December 31, 2013, the Company recorded a \$22.0 million charge related to settlements it entered into and for potential future settlements with the remaining states. During the year ended December 31, 2013, the Company made cash payments of \$12.3 million to the settled states after completion of the required due diligence. During the year ended December 31, 2014, 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. During the year ended December 31, 2014, the Company released a \$7.6 million of the reserve related to potential future settlements with the remaining states in connection with unexchanged promotional shares based upon the actual settlements with the remaining states under more favorable terms than previously estimated. As of December 31, 2014, the Company has maintained estimated reserves related to the remaining settled states, which will be paid after completion of the required due diligence during the three months ending March 31, 2015.

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 \$6,000 for the year ended December 31, 2014.

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 Canada, France, Germany, Spain, the U.K., and the U.S. under operating leases which expire between February 28, 2015 and November 30, 2024. Rent expense was \$5.3 million, \$5.6 million and \$5.0 million for years ended December 31, 2014, 2013 and 2012, 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.

We also have purchase commitments which represent the minimum obligations we have under agreements with certain of our 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, 2014 (in thousands):

	2015	2016	2017	2018	2019	Thereafter	Total
Operating leases	\$ 5,113	\$ 4,251	\$ 3,702	\$ 3,213	\$ 2,869	\$ 10,312	\$ 29,460
Purchase obligations	1,271	529	—	—	—	—	1,800
Total commitments	\$ 6,384	\$ 4,780	\$ 3,702	\$ 3,213	\$ 2,869	\$ 10,312	\$ 31,260

#### Note 6: Income Taxes

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

	Year Ended December 31,		
	2014	2013	2012
U.S.	\$ 14,363	\$ (6,964)	\$ 16,682
Foreign	6,828	9,671	9,116
	\$ 21,191	\$ 2,707	\$ 25,798

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:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
	(In thousands)		
<b>Year Ended December 31, 2014</b>			
Federal	\$ 2,124	\$ 294	\$ 2,418
State	670	21	691
Foreign	1,725	5	1,730
	<u>\$ 4,519</u>	<u>\$ 320</u>	<u>\$ 4,839</u>
<b>Year Ended December 31, 2013</b>			
Federal	\$ 5,504	\$ 21	\$ 5,525
State	1,023	(30)	993
Foreign	517	683	1,200
	<u>\$ 7,044</u>	<u>\$ 674</u>	<u>\$ 7,718</u>
<b>Year Ended December 31, 2012</b>			
Federal	\$ 7,692	\$ (640)	\$ 7,052
State	952	(204)	748
Foreign	610	(810)	(200)
	<u>\$ 9,254</u>	<u>\$ (1,654)</u>	<u>\$ 7,600</u>

During 2012, an income tax benefit of \$800,000 was recorded to recognize the foreign net operating loss carryforward deferred tax assets due to a partial release of valuation allowance.

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,		
	2014	2013	2012
Federal tax at statutory rates	\$ 7,416	\$ 947	\$ 9,029
State taxes, net of federal income tax benefit	504	694	489
Expired capital loss carryforward	1,534	—	—
Change of valuation allowance	(1,534)	(1,131)	(2,453)
Unexchanged promotional shares	(2,654)	7,700	1,050
Non-deductible expenses and other	(427)	(492)	(515)
Total income tax expense	<u>\$ 4,839</u>	<u>\$ 7,718</u>	<u>\$ 7,600</u>

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,	
	2014	2013
Deferred tax assets:		
Foreign net operating loss carryforwards	\$ —	\$ 76
State income taxes	196	415
Accruals and allowances	1,302	1,141
Stock based compensation	1,803	1,618
Capital loss	—	1,713
Deferred revenue	255	411
Deferred rent	146	54
Total deferred tax assets	<u>3,702</u>	<u>5,428</u>
Valuation allowance	—	(1,713)
Total deferred tax assets net of valuation allowance	<u>3,702</u>	<u>3,715</u>
Deferred tax liabilities:		
U.S. tax on undistributed earnings	(350)	(395)
Property, equipment and intangible assets	(636)	(145)
Total deferred tax liabilities	<u>(986)</u>	<u>(540)</u>
Net deferred tax assets	<u>\$ 2,716</u>	<u>\$ 3,175</u>

The total amount of the valuation allowance at December 31, 2014 decreased \$1.7 million from the amount recorded as of December 31, 2013, due to the expiration of capital loss carryforwards as of December 31, 2014 as the tax benefit was not realized.

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 \$4.1 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 \$570,000 at December 31, 2014.



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, 2014, the Company had approximately \$9.4 million in total unrecognized tax benefits, approximately \$1.5 million in accrued interest, of which \$462,000 was accrued in 2014, and approximately \$80,000 in accrued penalties, of which none was accrued in 2014. Unrecognized tax benefits of approximately \$8.0 million which, if recognized, would favorably affect the Company's effective income tax rate, and unrecognized tax benefits of approximately \$1.4 million which if recognized, would be recorded in discontinued operations. The increase in the unrecognized tax benefit for the year ended December 31, 2012 was related to a deduction taken on the Company's 2011 U.S. federal and state income tax returns for the \$20.0 million settlement with the State of Delaware. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Unrecognized tax benefits balance at January 1, 2012	\$	1,834
Increase related to prior year tax positions		47
Decrease related to prior year tax positions		(9)
Increase related to current year tax positions		7,851
Settlements		(251)
Lapse of statute of limitations		(107)
Unrecognized tax benefits balance at December 31, 2012		<u>9,365</u>
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		<u>9,345</u>
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	\$	<u><u>9,383</u></u>

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, including the \$7.9 million unrecognized tax benefit related to the Company's 2011 settlement with the State of Delaware. 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 years after 2009 and is subject to California tax examinations for years after 2005. The Company's 2009 and 2010 federal income returns are 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, 2014 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,		
	2014	2013	2012
Beginning balance	\$ (530)	\$ (737)	\$ (1,422)
Other comprehensive income due to foreign currency translation, net of tax	(2,467)	207	685
Ending balance	<u>\$ (2,997)</u>	<u>\$ (530)</u>	<u>\$ (737)</u>

There were no amounts reclassified from accumulated other comprehensive income (loss) for the years ended December 31, 2014, 2013 and 2012. 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 \$1.3 million, \$1.5 million and \$1.2 million for the years ended December 31, 2014, 2013 and 2012, 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 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, 2014, 2013 and 2012, there were no stock option exercises and no excess tax benefits.

In October 2001, the Company granted to each director fully vested and exercisable options to purchase 30,000 shares of common stock with an exercise price of \$2.00 per share for their services as a director in 2000 and 2001. A total of 210,000 options were granted. The options expired in October 2011. During the years ended December 31, 2011, 2008, 2005 and 2004, 12,725 options, 30,000 options, 17,275 options and 150,000 options, respectively, were exercised.

In March 2002, Travelzoo Inc. granted to each director options to purchase 5,000 shares of common stock with an exercise price of \$3.00 per share that vested in connection with their services as a director in 2002. A total of 35,000 options were granted. In October 2002, 1,411 options were cancelled upon the resignation of a director. The options expired in March 2012. During the years ended December 31, 2011, 2008 and 2004, 5,000 options, 5,000 options and 23,589 options, respectively, were exercised.

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, 2014, 300,000 of the options are vested and 300,000 options are 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, 2014, 25,000 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, 2014, none of these options were vested and 75,000 options were outstanding.

Total stock-based compensation for fiscal years 2014, 2013 and 2012 was \$982,000, \$1.4 million and \$1.2 million, respectively.

The Company utilized the Black-Scholes option pricing model to value the stock options granted in 2013, 2012 and 2009. The Company does not have enough historical exercise data to estimate the expected life of the options and therefore used an expected life of 6.25 years, as defined under the simplified method, which is using an average of the contractual term and vesting period of the stock options. The risk-free interest rate used for the award is based on the U.S. Treasury yield curve in effect at the time of grant. The Company used a forfeiture rate of 0% as the Company does not have enough historical forfeiture data to estimate the forfeiture rate. 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 2013 and 2012 stock options was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

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

As of December 31, 2014, there was approximately \$248,000 of unrecognized stock-based compensation expense related to outstanding 2012 stock options, expected to be recognized over 1.1 years and approximately \$904,000 of unrecognized stock-based compensation expense related to outstanding 2013 stock options, expected to be recognized over 2.6 years. 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.

Option activities during the years ended December 31, 2012, 2013, and 2014 were as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
(In thousands)				
Outstanding at January 1, 2012	300,000	\$ 14.97	7.89 years	\$ 2,883
Options granted	100,000	\$ 28.98		
Outstanding at December 31, 2012	400,000	\$ 18.47	7.43 years	\$ 1,206
Exercisable and fully vested at December 31, 2012	150,000	\$ 14.97	6.89 years	\$ 603
Outstanding at January 1, 2013	400,000	\$ 18.47		
Options granted	75,000	\$ 29.58		
Outstanding at December 31, 2013	475,000	\$ 20.23	6.93 years	\$ 1,905
Exercisable and fully vested at December 31, 2013	250,000	\$ 16.37	6.10 years	\$ 1,429
Outstanding at January 1, 2014	475,000	\$ 20.23		
Options forfeited	(25,000)	\$ 28.98		
Options canceled	(25,000)	28.98		
Outstanding at December 31, 2014	425,000	\$ 19.20	5.79 years	\$ —
Exercisable and fully vested at December 31, 2014	325,000	\$ 16.05	5.05 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, 2014, 2013 and 2012 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, 2014, 2013, and 2012. 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, 2014 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	Weighted- Average Exercise Price
\$ 14.97	300,000	5.89 years	\$ 14.97	300,000	5.89 years	\$ 14.97
\$ 28.98	50,000	8.07 years	\$ 28.98	25,000	8.07 years	\$ 28.98
\$ 29.58	75,000	9.56 years	\$ 29.58	—	—	\$ 29.58

#### 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. During the year ended December 31, 2012, the Company repurchased 161,000 shares of common stock for an aggregate purchase price of \$3.6 million. The 161,000 shares repurchased were retired as of September 30, 2012. During the three months ended December 31, 2012, the Company repurchased 439,000 shares of common stock for an aggregate purchase price of \$7.9 million. The 439,000 shares repurchased were recorded as part of treasury stock as of December 31, 2012. There were 400,000 shares remaining to be repurchased under this program as of December 31, 2012.

During the year ended December 31, 2013, the Company repurchased 371,000 shares of common stock for an aggregate purchase price of \$7.8 million. The 371,000 shares repurchased were recorded as part of treasury stock as of December 31, 2013. There were 29,000 shares remaining to be repurchased under this program as of December 31, 2013.

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. There were 268,000 shares remaining to be repurchased under this program as of December 31, 2014.

#### **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, 2014, the Company's retained earnings includes a total adjustment of \$347,000 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 \$192,000 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, 2014, the sale proceeds of \$192,000 are held by the Company's transfer agent in anticipation of the payment to be made to the fractionalized shareholders and are included in Funds Held for Reverse/Forward Stock Split on the Company's balance sheet. As of December 31, 2014, the total amount payable of \$192,000 to fractionalized shareholders as a result of the execution of the reverse/forward split is reflected as a Payable to Shareholders for Reverse/Forward Stock Split on the Company's balance sheet.

## Note 12: Segment Reporting and Significant Customer Information

The Company manages its business geographically and has two reportable operating segments: North America and Europe. North America consists of the Company's operations in Canada and the U.S. Europe consists of the Company's operations in France, Germany, Spain, and the U.K.

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, 2014	North America	Europe	Elimination and Other (a)	Consolidated
Revenues from unaffiliated customers	\$ 95,183	\$ 46,893	\$ —	\$ 142,076
Intersegment revenues	1,350	163	(1,513)	—
Total net revenues	96,533	47,056	(1,513)	142,076
Operating income	\$ 7,679	\$ 5,788	\$ 7,583	\$ 21,050

Year Ended December 31, 2013	North America	Europe	Elimination and Other (a)	Consolidated
Revenues from unaffiliated customers	\$ 111,955	\$ 46,279	\$ —	\$ 158,234
Intersegment revenues	814	452	(1,266)	—
Total net revenues	112,769	46,731	(1,266)	158,234
Operating income	\$ 16,568	\$ 7,710	\$ (22,000)	\$ 2,278

Year Ended December 31, 2012	North America	Europe	Elimination and Other (a)	Consolidated
Revenues from unaffiliated customers	\$ 108,787	\$ 42,381	\$ —	\$ 151,168
Intersegment revenues	728	143	(871)	—
Total net revenues	109,515	42,524	(871)	151,168
Operating income	\$ 21,481	\$ 7,008	\$ (3,000)	\$ 25,489

- (a) Amount related to unexchanged promotional shares that include a \$7.6 million release of reserve, a \$22.0 million charge and a \$3.0 million charge for the years ended December 31, 2014, 2013 and 2012, respectively.

As of December 31, 2014	North America	Europe	Elimination	Consolidated
Long-lived assets	\$ 7,678	\$ 1,507	\$ —	\$ 9,185
Total assets	\$ 73,508	\$ 40,818	\$ (23,838)	\$ 90,488

As of December 31, 2013	North America	Europe	Elimination	Consolidated
Long-lived assets	\$ 6,572	\$ 2,077	\$ —	\$ 8,649
Total assets	\$ 96,278	\$ 49,668	\$ (31,144)	\$ 114,802

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, 2014, 2013 and 2012, the Company did not have any customers that accounted for 10% or more of revenue. As of December 31, 2014, the Company had one customer that accounted for 11% of accounts receivable. As of December 31, 2013, the Company did not have any customers that accounted for 10% or more of accounts receivable.

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

	Year Ended December 31,		
	2014	2013	2012
North America			
Travel	\$ 59,160	\$ 63,812	\$ 56,636
Search	14,857	20,704	23,101
Local	21,166	27,439	29,050
Total North America revenues	\$ 95,183	\$ 111,955	\$ 108,787
Europe			
Travel	\$ 37,339	\$ 34,635	\$ 29,844
Search	2,413	3,264	4,149
Local	7,141	8,380	8,388
Total Europe revenues	\$ 46,893	\$ 46,279	\$ 42,381
Consolidated			
Travel	\$ 96,499	\$ 98,447	\$ 86,480
Search	17,270	23,968	27,250
Local	28,307	35,819	37,438
Total revenues	\$ 142,076	\$ 158,234	\$ 151,168

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):

Revenue	Year Ended December 31,		
	2014	2013	2012
United States	\$ 89,311	\$ 104,650	\$ 101,506
United Kingdom	29,301	31,270	30,122
Rest of the world	23,464	22,314	19,540
Total revenues	\$ 142,076	\$ 158,234	\$ 151,168



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

	December 31,	
	2014	2013
United States	\$ 7,646	\$ 6,557
Rest of the world	1,539	2,092
Total long lived assets	<u>\$ 9,185</u>	<u>\$ 8,649</u>

**Note 13: Related Party Transactions**

Ralph Bartel, who founded Travelzoo and who is a Director of the Company is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro Capital Inc. As of December 31, 2014, Azzurro is the Company's largest stockholder, holding approximately 49.1% of the Company's outstanding shares. Azzurro currently holds a proxy given to it by Holger Bartel that provides it with a total of 50.4% of the voting power.

In 2009, the Company sold its Asia Pacific operating segment to Travelzoo (Asia) Limited and Travelzoo Japan K.K., subsidiaries of Azzurro Capital Inc. There is a reciprocal revenue-sharing and hosting agreement among the Azzurro Capital Inc. entities operating the Travelzoo business in Asia Pacific and the Company related to cross-selling audiences and hosting and development services by the Company, which were entered into in connection with the sale of Asia Pacific business segment. The fees generated by the Company under these agreements amounted to \$595,000, \$707,000 and \$547,000 for the years ended December 31, 2014, 2013 and 2012, respectively. The fees incurred by the Company under these agreements amounted to \$64,000, \$4,000 and \$11,000 for the years ended December 31, 2014, 2013 and 2012, respectively. The Company presents the receivables and payables with the Azzurro entities operating the Travelzoo business in Asia Pacific under these agreements on a net basis on the balance sheet as they are subject to a net settlement agreement as of December 31, 2014. The Company's net receivables was \$553,000 and was included in prepaid expenses and other in the accompanying consolidated balance sheets as of December 31, 2014. This net receivable is covered by a Guarantee Agreement between Travelzoo and Azzurro Capital, which provides assurance it will be collected in full. The Company's receivables and payables were \$690,000 and \$501,000, respectively, as of December 31, 2013 and were included in prepaid expenses and other and accounts payable in the accompanying consolidated balance sheets. In addition, as part of the sale of the Asia Pacific operating segment in 2009, the Company obtained an option, which expires in June 2020, to repurchase the Asia Pacific business pursuant to the terms of the option agreement.



**Note 14: Unaudited Quarterly Information**

The following represents unaudited quarterly financial data (in thousands, except per share amounts) for 2014 and 2013:

	Quarter Ended							
	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013
Revenues	\$ 31,498	\$ 33,500	\$ 36,883	40,195	\$ 37,474	\$ 37,256	\$ 41,327	\$ 42,177
Cost of revenues	4,280	4,475	4,374	4,777	4,670	4,322	4,425	3,985
Gross profit	27,218	29,025	32,509	35,418	32,804	32,934	36,902	38,192
Operating expenses:								
Sales and marketing	16,550	17,535	15,305	17,843	17,305	18,449	19,457	19,659
General and administrative	11,266	11,056	10,570	10,578	11,026	10,510	9,651	10,497
Unexchanged promotional shares	(1,833)	(2,250)	(3,500)	—	—	22,000	—	—
Total operating expenses	25,983	26,341	22,375	28,421	28,331	50,959	29,108	30,156
Income (loss) from operations	1,235	2,684	10,134	6,997	4,473	(18,025)	7,794	8,036
Other income (expense)	(47)	10	56	122	62	224	112	31
Income (loss) before income tax	1,188	2,694	10,190	7,119	4,535	(17,801)	7,906	8,067
Income taxes	(66)	158	2,266	2,481	1,305	1,235	2,706	2,472
Net income (loss)	\$ 1,254	\$ 2,536	\$ 7,924	\$ 4,638	\$ 3,230	\$ (19,036)	\$ 5,200	\$ 5,595
Basic net income (loss) per share	0.09	0.17	0.54	0.31	0.21	(1.24)	0.34	0.36
Diluted net income (loss) per share	\$ 0.09	\$ 0.17	\$ 0.54	\$ 0.31	\$ 0.21	\$ (1.24)	\$ 0.34	\$ 0.36

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

None.

**Item 9A. Controls and Procedures**

As of December 31, 2014, 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, 2014 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.

During the quarter ended December 31, 2014, there was no change in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### **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, 2014, utilizing the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework (1992)*. Based on the assessment by Travelzoo's management, we determined that Travelzoo's internal control over financial reporting was effective as of December 31, 2014. The effectiveness of Travelzoo's internal control over financial reporting as of December 31, 2014 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/ CHRISTOPHER LOUGHLIN

Christopher Loughlin  
*Chief Executive Officer*

/s/ GLEN CEREMONY

Glen Ceremony  
*Chief Financial Officer*

February 13, 2015

**Item 9B. *Other Information***

Not applicable.

## PART III

### **Item 10. *Directors, Executive Officers and Corporate Governance of the Registrant***

Information required by this item is incorporated by reference to Travelzoo's Definitive Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of Travelzoo's fiscal year ended December 31, 2014 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 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2014, 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 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2014, 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 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2014, 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 2015 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	<u>50</u>
Consolidated Balance Sheets	<u>51</u>
Consolidated Statements of Operations	<u>52</u>
Consolidated Statements of Comprehensive Income (Loss)	<u>53</u>
Consolidated Statements of Stockholders' Equity	<u>54</u>
Consolidated Statements of Cash Flows	<u>55</u>
Notes to Consolidated Financial Statements	<u>56</u>

(2) *Supplementary Consolidated Financial Statement Schedules:*

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

(3) *Exhibits:*

See attached Exhibit Index

## SIGNATURES

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

TRAVELZOO INC.

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

Date: February 13, 2015

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.

<u>Signatures</u>	<u>Title(s)</u>	<u>Date</u>
<u>          /s/ HOLGER BARTEL</u> Holger Bartel	Chairman of the Board of Directors	February 13, 2015
<u>          /s/ CHRISTOPHER LOUGHLIN</u> Christopher Loughlin	Chief Executive Officer	February 13, 2015
<u>          /s/ GLEN CEREMONY</u> Glen Ceremony	Chief Financial Officer and Principal Accounting Officer	February 13, 2015
<u>          /s/ RALPH BARTEL</u> Ralph Bartel	Director	February 13, 2015
<u>          /s/ MICHAEL KARG</u> Michael Karg	Director	February 13, 2015
<u>          /s/ DONOVAN NEALE-MAY</u> Donovan Neale-May	Director	February 13, 2015
<u>          /s/ MARY REILLY</u> Mary Reilly	Director	February 13, 2015

## 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*	—	Employment Agreement, amendment effective date January 1, 2013, between Mark Webb and Travelzoo Inc.
10.21*	—	Employment Termination Agreement, effective date June 1, 2014, between Mark Webb and Travelzoo Inc.
10.22*‡	—	Employment Termination Agreement, effective date December 13, 2014, between Shirley Tafoya and Travelzoo Inc.
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

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**Investors Relations:**

Travelzoo Inc.  
ATTN: Investor Relations  
590 Madison Avenue  
37th Floor  
New York, NY 10022

Web site:

[www.travelzoo.com/ir](http://www.travelzoo.com/ir)