NASDAQ: TZOO

# 2017 Annual Report

# 2018 Proxy Statement

**TRAVELZOO**

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

March 27, 2018

Dear Stockholders:

You are cordially invited to attend the Annual Meeting of Stockholders of Travelzoo on May 15, 2018. We will hold the meeting at 800 W. El Camino Real, Suite 275, Mountain View, CA 94040, U.S.A., 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 2017 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on March 16, 2018, which is also enclosed. We encourage you to read the Form 10-K.

Stockholders of record as of March 21, 2018 may vote at the Annual Meeting. This proxy statement or notice thereof is first being mailed or furnished to stockholders on or about March 30, 2018.

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 office, located at 800 W. El Camino Real, Suite 275, Mountain View, CA 94040, U.S.A., 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,

RALPH BARTEL
*Chairman of the Board*

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

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**
**To Be Held On May 15, 2018**

To the Stockholders of Travelzoo:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Travelzoo, a Delaware corporation, will be held on Monday, May 15, 2018, at 10:00 a.m., local time, at 800 W. El Camino Real, Suite 275, Mountain View, CA 94040, U.S.A., for the following purposes:

- To elect five members of the Company's Board of Directors (the "Board"), each to serve until the 2019 Annual Meeting of Stockholders and until their successors are elected and qualified or until their earlier resignation or removal ("Proposal 1");
- To vote to approve an option grant to an executive officer of the Company ("Proposal 2");
- To vote, on an advisory basis, to approve executive compensation ("Proposal 3"); 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 21, 2018 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

GLEN CEREMONY
*Corporate Secretary*

**PROXY STATEMENT**
**FOR TRAVELZOO**

**2018 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 2018 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 21, 2018 (the "record date") will be entitled to notice of, and to vote at, the Annual Meeting. As of the record date, there were 12,461,553 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 15, 2018 at 800 W. El Camino Real, Suite 275, Mountain View, CA 94040, U.S.A. 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 2019 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 an option grant to an executive officer of the Company ("Proposal 2");
- A proposal, on an advisory basis, to approve executive compensation ("Proposal 3"); 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, Proposal 2 and Proposal 3.

### How many votes do I have?

- 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, New York, NY 11717, U.S.A.

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 and Proposal 3. 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, 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 of Proposal 2 and, by an advisory vote, of Proposal 3.

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 7,160,500 shares of our Common Stock, representing approximately 57.5% the outstanding shares, as of March 21, 2018.

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, 2 and 3 are considered "non-routine". Broker non-votes will not have any effect with respect to Proposals 1, 2 and 3, 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, by calling the U.S. Securities and Exchange Commission ("SEC") at (800) SEC-0330 for the location of the nearest public reference room, or through the EDGAR system at www.sec.gov. Information on our website does not constitute part of this proxy statement.

## PROPOSAL 1—ELECTION OF DIRECTORS

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 2019 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 2019:**

The ages, principal occupations, directorships held and other information as of March 21, 2018, with respect to our nominees are described below.

| Name | Age | Position |
|---|---|---|
| Ralph Bartel, Ph.D., Ph.D. | 52 | Chairman of the Board |
| Rachel Barnett | 37 | General Counsel and Director |
| Carrie Liqun Liu (1) (3) | 36 | Director |
| Mary Reilly (1) (2) (3) (4) | 64 | Director |
| Beatrice Tarka (1) (2) (4) | 46 | 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 previously elected by the shareholders. Mr. Ralph Bartel, Ms. Rachel Barnett, Ms. Carrie Liqun Liu, Ms. Mary Reilly and Ms. Beatrice Tarka were elected directors of Travelzoo at the Company's Annual Meeting of Stockholders held on May 22, 2017. Our Board of Directors has determined that each of Ms. Liu, Ms. Reilly and Ms. Tarka 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 57.5% of our outstanding Common Stock as of March 21, 2018.

*Ralph Bartel, Ph.D., Ph.D.,* founded Travelzoo in May 1998 and has been a member of the Board of Directors since then. He has been the Chairman of the Board of Directors since May 2017, and he has been Travelzoo's Chief Talent Officer since September 2014. From May 1998 to September 2008, he was the Chairman of the Board of Directors and the Chief Executive Officer. From October 2008 to June 2010, he was the Chairman of the Board of Directors. Ralph Bartel is a professionally trained journalist who 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 include media, journalism, Internet, finance and start-up experience.

*Rachel Barnett,* has been General Counsel of Travelzoo since September 2013. From October 2006 to September 2013, she was an attorney at Skadden, Arps, Slate, Meagher and Flom, LLP. Ms. Barnett has also been a Lecturer in Law at Columbia Law School since January 2016. Ms. Barnett earned her juris doctor degree from Columbia Law School and a Bachelor of Science degree from Cornell University. Ms. Barnett clerked for the Honorable Vice Chancellor Stephen P. Lamb of the Delaware Court of Chancery.

Areas of Ms. Barnett’s relevant experience include corporate governance, risk management, and international transactions.

*Carrie Liqun Liu,* is the General Manager of the Private Equity Business at Tianhong, a prominent fund management company in China. From July 2011 to May 2017, Ms. Liu was the Executive Director of Fosun China Momentum Fund. From May 2009 to July 2011, she was a senior investment professional at Henderson Equity Partners. From 2015 to 2016, she was a member of the board of directors and audit committee of Tom Tailor Holding AG, and also a member of the board of directors of Cirque du Soleil, an entertainment company. Ms. Liu holds a bachelor's degree in finance and master's degree in law from Tsinghua University in Beijing, China.

Areas of Ms. Liu's relevant experience include Asian markets, investments, finance and global strategy.

*Mary Reilly* has been a member of Travelzoo's Board of Directors since September 2013. From August 2002 to June 2013, she was a Partner of Deloitte LLP, an international accounting and consulting firm. At Deloitte she worked with organizations in a wide range of industries including recruitment, retail, media, business services, manufacturing, professional services, and charity. She is a member of the board of directors of Mitie plc since September 2017, of Essentra plc since July 2017, a member of the board of directors and of the audit committee for Cape plc since September 2016, and a member of the board of directors and the chair of the audit committee for Ferrexpo plc since May 2015. She is also the chair of the audit and risk committee for the Department of Transport Board in the United Kingdom since June 2013. She is a member of the board of directors and the chair of the audit and risk committee for Crown Agents Ltd., an international development company that partners with governments, aid agencies, non-governmental organizations and companies in nearly 100 countries to make lasting change to the systems and organizations that are vital for people's well-being and prosperity. From 2000 to 2008, she was a member of the board of directors of London 2012, a company established to run London's Olympic bid. From 2003 to 2006, she was a member of the Board of Directors of the London Development Agency. Ms. Reilly holds a bachelor's degree in history from the University College London. She completed a postgraduate course at London Business School. She is a Qualified Chartered Accountant in the United Kingdom.

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

*Beatrice Tarka,* has been a member of Travelzoo's Board of Directors since August 2015. She has been the founder and Chief Executive Officer of Mobissimo since September 2000. Mobissimo is an online travel search engine which allows users to compare prices of airline tickets, hotel rooms, and car rentals. From 1996 to 2000, she was Chief Executive Officer of Axall Media, a game and entertainment software developer and publisher. Ms. Tarka holds a master's degree in business administration from Boston University and a bachelor's degree in international affairs from the American University in Paris, France.

Areas of Ms.Tarka's relevant experience include entrepreneurship, strategic partnerships, international business and innovative online product development.

**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 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.

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

## 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 2017. Each of Mr. Ralph Bartel, Ms. Barnett, Ms. Liqun Liu, Ms. Reilly, Ms. Tarka, Mr. Holger Bartel, Mr. Karg, Mr. Neale-May and Ms. Tsay 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 served during the period such persons served. Directors that served prior to the election of directors at the last annual meeting on May 22, 2017, including Mr. Holger Bartel, Mr. Michael Karg, Ms. Caroline Tsay and Mr. Donovan Neale-May, are listed in addition to the current director nominees as they served during fiscal year 2017 from January 1, 2017 through May 22, 2017.

| Name | Board | Audit | Compensation | Disclosure | Nominating and Corporate |
|---|---|---|---|---|---|
| Mr. Ralph Bartel | Chair | | | | |
| Ms. Rachel Barnett | Member | | | | |
| Ms. Carrie Liqun Liu | Member | Member | | Member | |
| Ms. Mary Reilly | Member | Chair | Chair | Chair | Chair |
| Ms. Beatrice Tarka | Member | Member | Member | | Member |
| Mr. Holger Bartel* | Chair | | | | |
| Mr. Michael Karg* | Member | Member | Chair | Member | Member |
| Mr. Donovan Neale-May* | Member | Member | | Chair | Chair |
| Ms. Caroline Tsay* | Member | | | | |
| **Number of 2017 Meetings** | **4** | **4** | **1** | **4** | **—** |

* Service during fiscal year 2017 was from January 1, 2017 through May 22, 2017.

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 SEC.

***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.

***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 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 and the independent directors constituting a majority of the Board 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 Global 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.* 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, 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 director or any group or committee of directors, correspondence should be addressed to the Board of Directors or any such individual director or group or committee of directors by either name or title. All such correspondence should be sent "c/o Corporate Secretary" at Travelzoo, 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 2017, there were no adjustments to the director compensation policy. The retainers and meeting fees are as follows:

| Description | Fees Earned ($) |
|---|---|
| Annual Chairman of Board retainer | 175,000 |
| Annual retainer for Board member | 50,000 |
| Annual retainer for Audit Committee Chair | 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 |
| Fee for attendance of a Compensation Committee meeting | 2,800 |

Members of the Board of Directors may receive fees for additional meetings and committee work.

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

Mr. Ralph Bartel and Ms. Rachel Barnett chose not to receive any compensation for the services as director and/or Chairman. The following table shows compensation information for Travelzoo's directors for fiscal year ended December 31, 2017.

| Name | Fees Earned or Paid in Cash ($) | Total ($) |
|---|---|---|
| Mr. Ralph Bartel | — | — |
| Ms. Rachel Barnett | — | — |
| Ms. Carrie Liqun Liu | 44,495 | 44,495 |
| Ms. Mary Reilly | 104,080 | 104,080 |
| Ms. Beatrice Tarka | 62,320 | 62,320 |
| Mr. Holger Bartel* | 90,073 | 90,073 |
| Mr. Michael Karg* | 33,083 | 33,083 |
| Mr. Donovan Neale-May* | 30,283 | 30,283 |
| Ms. Caroline Tsay* | 21,323 | 21,323 |

* Service during fiscal year 2017 was from January 1, 2017 through May 22, 2017.

**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 Global 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. Moreover, employees are required to read and comply with our Guide to Business Conduct, which is a communication to all employees that ensures they are aware of their responsibility to avoid any conflicts of interest or potential conflicts of interest and to make appropriate disclosures to their manager or other personnel.

Our General Counsel and/or Chief Financial Officer review(s) all material related party transactions involving the Company and any of the Company's principal shareholders or members of our board of directors, nominees, or senior management or any immediate family member of any of the foregoing. When a potential related party transaction is identified, the General Counsel and/or the Chief Financial Officer will evaluate the transaction and determine whether the transaction requires the review and approval by the Audit Committee or a special committee of the Board consisting of independent directors ("Special Committee"). 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. Upon submission to the Audit Committee or a Special Committee, such 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. ("Azzurro"). As of March 21, 2018, Azzurro is the Company's largest stockholder, holding approximately 57.5% of the Company's outstanding shares.

**Family Relationships**

Ralph Bartel, Chairman of the Board of Directors and Holger Bartel, Global Chief Executive Officer, 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 or her involvement in any type of business, securities or banking activities; (iv) been found by a court of competent jurisdiction (in a civil action), the SEC, 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 21, 2018.

| Name | Age | Position |
|---|---|---|
| Holger Bartel, Ph.D. | 51 | Global Chief Executive Officer |
| Glen Ceremony | 50 | Chief Financial Officer |
| Rachel Barnett | 37 | General Counsel and Director |
| Christian Smart | 39 | General Manager, Germany |
| Michael Stitt | 38 | President, North America |

*Holger Bartel,* Ph.D., has been Travelzoo's Global Chief Executive Officer since January 2016. From July 2010 to May 2017, he was the Chairman of the Board of Directors. From October 2011 to October 2013, he was Head of Strategy. From October 2008 to June 2010, he was Travelzoo's Chief Executive Officer. From September 1999 to November 2007, he was Executive Vice President. From 1995 to 1998, he was Engagement Manager at McKinsey & Company, a global management consulting firm. From 1992 to 1994, he was a research fellow at Harvard Business School. Holger 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.

*Glen Ceremony,* has been Chief Financial Officer since June 2011. From October 2004 to June 2011, Mr. Ceremony worked at eBay, Inc. where he 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 PricewaterhouseCoopers 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.

*Rachel Barnett,* has been General Counsel of Travelzoo since September 2013. From October 2006 to September 2013, she was an attorney at Skadden, Arps, Slate, Meagher and Flom, LLP. Ms. Barnett has also been a Lecturer in Law at Columbia Law School since January 2016. Ms. Barnett earned her juris doctor degree from Columbia Law School and a Bachelor of Science degree from Cornell University. Ms. Barnett clerked for the Honorable Vice Chancellor Stephen P. Lamb of the Delaware Court of Chancery.

*Christian Smart,* has been General Manager, Germany at Travelzoo since December 2016. From January 2012 to November 2016, he was Country Manager, Germany at Travelzoo. From December 2008 to December 2011, he was Head of Sales, Germany & Spain at Travelzoo. From August 2007 to November 2008, he was Senior Sales Manager, Germany & Central Europe at Travelzoo. From June 2004 to August 2007, he worked in various roles at ProSiebenSat.1 Media SE and Amadeus. Mr. Smart received his B.A. Hons in International Business from Hochschule RheinMain, Germany and attended business school at University of Miami, USA, ESADE Business School, Barcelona, Spain and University of St. Gallen, Switzerland.

*Michael Stitt,* has been President, North America at Travelzoo since October 2015. He was most recently Senior Vice President, overseeing local and entertainment categories, publishing and product planning in North America. From October 2004 to May 2010, he contributed to and then led Travelzoo’s production team. Mr. Stitt has also served as Global Head of Mobile Strategy since December 2013. Prior to joining Travelzoo, Mr. Stitt was with Meredith Corporation. He received a Bachelor of Arts degree in Advertising from Iowa State University. He also holds an MBA from the Sloan School of Management at Massachusetts Institute of Technology.

## PROPOSAL 2—APPROVAL OF OPTION GRANT TO EXECUTIVE OFFICER

### Option Agreement with Global Chief Executive Officer

The Company entered into a Nonqualified Stock Option Agreement (the “Option Agreement”) with Holger Bartel, Global Chief Executive Officer, on October 30, 2017, pursuant to which the Company granted Mr. Bartel the option (the “Option”) to purchase 400,000 shares of the Company’s common stock. The Option will begin to partly vest on March 31, 2018, but will not be exercisable until stockholder approval. Stockholders are being asked to approve the issuance of common stock which is issuable to Mr. Bartel upon exercise of the Option. The principal terms of the Option Agreement are summarized below. The following summary is qualified in its entirety by the full text of the Option Agreement, which is incorporated herein by reference to Exhibit 10.3 to the Company’s report on Form 8-K, filed November 3, 2017.

### Exercisability of Option

The exercise price of the Option is $6.95 per share. The option will become exercisable in accordance with the following schedule:

| *Vesting Date* | *Percentage of Option Vesting* |
|---|---|
| March 31, 2018 | 12.5% |
| June 30, 2018 | 12.5% |
| September 30, 2018 | 12.5% |
| December 31, 2018 | 12.5% |
| March 31, 2019 | 12.5% |
| June 30, 2019 | 12.5% |
| September 30, 2019 | 12.5% |
| December 31, 2019 | 12.5% |

Mr. Bartel must exercise the Option by October 30, 2027; after such date, the Option will expire.

### Exercise of Option

Mr. Bartel may exercise, in whole or in part, the Option by delivering to the Company not less than 30 days prior to the exercise date (or such shorter period the Company may approve) a written notice of exercise, designating the number of shares to be purchased, along with payment of the full amount of the purchase price of the shares being purchased. The purchase price of the shares subject to the option may be paid for (i) in cash, (ii) in the discretion of the Board of Directors, by tender of shares of Common Stock already owned by Mr. Bartel, or (iii) in the discretion of the Board of Directors, by such other method as the Board of Directors may determine.

### Adjustment of Option

As is customary in stock option agreements of this nature, the number of shares subject to the Option and exercise price are subject to adjustment in the event there is any change in the number of shares of outstanding common stock of the Company by reason of a stock dividend, recapitalization, merger, consolidation, split-up, combination, exchange of shares or other similar event.

### Transfer Restrictions

The Option is not transferable by Mr. Bartel other than by will or the laws of descent and distribution and may be exercised during Mr. Bartel’s lifetime only by him or his guardian or legal representative.

**Effect of Termination of Employment**

If Mr. Bartel’s employment with the Company is terminated without cause (other than by reason of his death or disability), and subject to Mr. Bartel signing and not revoking a general release of claims as set forth in Appendix A of the Option Agreement, Mr. Bartel’s stock options shall immediately vest in full on the date of termination. The option shall remain exercisable for three months following the date of voluntary termination and any unexercised options shall be null and void if not exercised by that date. Should Mr. Bartel be terminated for cause (as defined in his Employment Agreement), should he voluntarily resign from the Company, or in the event of death or disability, Mr. Bartel’s (or, in the event of death, the legatee or legatees of Mr. Bartel under his last will, or his personal representatives or distributees) right to exercise the option, to the extent it was vested and he was entitled to exercise it on the date of termination of employment, shall continue for three months after such termination but not after September 28, 2025. If Mr. Bartel (or, in the event of death, the legatee or legatees of Mr. Bartel under his last will, or his personal representatives or distributees) does not exercise the option within the three months following such termination of employment, any unexercised options shall be null and void.

**Registration**

The Company has registered the shares of common stock made available under the Option Agreement under the Securities Act of 1933, as amended.

**Personal Interest**

Mr. Holger Bartel is Travelzoo's Global Chief Executive Officer.

**Board of Directors’ Recommendation**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE “FOR” THE APPROVAL OF THIS PROPOSAL RELATING TO THE OPTION AGREEMENTS.**

## PROPOSAL 3—ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

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 0% to 31% of our named executive officers' total compensation for 2017 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 2018 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 2017 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 2017 compensation for our Global 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 included Ms. Mary Reilly and Mr. Michael Karg through May 22, 2017. The Committee includes Ms. Mary Reilly and Ms. Beatrice Tarka after May 22, 2017. Ms. Reilly, Mr. Karg and Ms. Tarka satisfied the independence requirements of the NASDAQ.

*Role of Management.* During 2017, 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 Global Chief Executive Officer (CEO) and data prepared by management, including a comparison of the current compensation of the named executive officers with publicly available information. 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 Global 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 Global 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, equity and non-equity incentive pay.

***Base Salary***

The Committee considered two types of potential base salary increases for the named executive officers in 2017: (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.

The Committee established a base salary of Mr. Holger Bartel as shown in on the Summary Compensation Table based upon his duties and responsibilities as Global CEO and did not make any other change to base salaries of its other named executive officers in 2017.

***Incentive Bonus Pay***

Pursuant to the terms of Mr. Ceremony's employment agreement dated May 9, 2011, effective June 15, 2011 and as amended March 9, 2017, Mr. Ceremony is eligible to receive a quarterly Performance Bonus for each quarter during 2017.

The quarterly Performance Bonus is calculated based upon worldwide revenue, operating income and audience targets. The revenue bonus is calculated based upon achievement of the target resulting in a potential and maximum bonus of $16,667. The operating income bonus is calculated based upon achievement of the target resulting in a potential and maximum bonus of $16,667. The audience bonus is calculated based upon achievement of certain audience targets resulting in a potential and maximum bonus of $16,666. The total maximum Performance Bonus per quarter for the revenue, operating income and audience components combined is $50,000.

Mr. Ceremony earned a quarterly bonus for audience for the second and third quarters and for operating income for the fourth quarter of 2017. Mr. Ceremony received Performance Bonuses totaling $50,000 during 2017. For 2017, Mr. Ceremony received 25% of the maximum Performance Bonus. The Company believes that targets set for worldwide revenue, operating income and audience targets align with the Company's desire to continue to grow the business.

Mr. Ceremony also received a Discretionary Bonus determined by the Global Chief Executive Officer at his sole and absolute discretion. In exercising such discretion, the Global Chief Executive Officer takes into consideration Mr. Ceremony's individual performance. In evaluating Mr. Ceremony’s individual performance during 2017, the Global Chief Executive Officer considered factors such as Mr. Ceremony’s leadership role in areas of corporate governance and business ethics, and financial management. Mr. Ceremony received a Discretionary Bonus totaling $62,502 for 2017.

Pursuant to the terms of Ms. Barnett's employment agreement dated July 30, 2013, as amended May 22, 2017, Ms. Barnett also received a Discretionary Bonus determined by the Global Chief Executive Officer at his sole and absolute discretion. In exercising such discretion, the Global Chief Executive Officer takes into consideration Ms. Barnett's individual performance. Ms. Barnett received a Discretionary Bonus totaling $20,685 for 2017.

Pursuant to the terms of Ms. Hong's employment agreement dated January 1, 2016, Ms. Hong was eligible to receive a quarterly Performance Bonus for each quarter during 2017. Ms. Hong's Performance Bonus is payable in Chinese Yuan and has been translated into US dollars (at the rate of 6.76 RMB to $1.00) for the purposes of this summary.

The quarterly Performance Bonus is calculated based upon Asia Pacific revenue, operating income and audience targets. The revenue bonus is calculated based upon achievement of the target resulting in a potential and maximum bonus of $7,400. The operating income bonus is calculated based upon achievement of the target resulting in a potential and maximum bonus of $7,400. The audience bonus is calculated based upon achievement of certain audience targets resulting in a potential and maximum bonus of $7,400. The total maximum Performance Bonus per quarter for the revenue, operating income and audience components combined is $22,200.

Ms. Hong earned no quarterly bonus in 2017. For 2017, Ms. Hong received 0% of the maximum Performance Bonus. The Company believes that targets set for Asia Pacific revenue, operating income and audience targets align with the Company's desire to continue to grow the business.

Ms. Hong's employment terminated on November 1, 2017 and in exchange for executing a general release of claims she received compensation of $170,194 in 2017.

Pursuant to the terms of Mr. Smart's employment agreement dated October 11, 2012, Mr. Smart is eligible to receive a quarterly Performance Bonus for each quarter during 2017. Mr. Smart's Performance Bonus is payable in Euro and has been translated into US dollars (at the rate of 1.13 Euro to $1.00) for the purposes of this summary.

The quarterly Performance Bonus is calculated based upon Germany travel revenue, travel operating income, local revenue and audience targets. The travel revenue 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 $6,767 to $16,917. The quarterly travel revenue bonus at 100% of target is $11,278 and the maximum revenue bonus is $16,917. The travel operating income bonus is calculated based upon a sliding scale that ranges from 95% through 110% achievement of the target resulting in a potential bonus that ranges from $6,767 to $16,917. The quarterly travel operating income bonus at 100% of target is $11,278 and the maximum operating income bonus is $16,917. The local revenue bonus is calculated based upon a sliding scale that ranges from 95% through 110% achievement of the target resulting in a potential bonus that ranges from $10,150 to $13,534. The quarterly local revenue bonus at 100% of target is $11,278 and the maximum revenue bonus is $13,534. The audience bonus is calculated based upon achievement of certain audience targets resulting in a potential bonus of up to $11,278. The total maximum Performance Bonus per quarter for the travel revenue, travel operating income, local revenue and audience components combined is $58,646.

Mr. Smart earned a quarterly bonus for travel revenue and local revenue the first, third and fourth quarters of 2017, earned a quarterly bonus for travel operating income the first quarter of 2017 and earned a quarterly bonus for audience for all quarters of 2017. Mr. Smart received Performance Bonuses totaling $121,662 during 2017. For 2017, Mr. Smart received 52% of the maximum Performance Bonus. The Company believes that targets set for Germany travel revenue, travel operating income, local revenue and audience align with the Company's desire to continue to grow the business.

Pursuant to the terms of Mr. Stitt's employment agreement dated September 30, 2015, Mr. Stitt was eligible to receive a quarterly Performance Bonus for each quarter during 2017.

The quarterly Performance Bonus is calculated based upon North America revenue, operating income and audience targets. The revenue bonus is calculated based upon achievement of the target resulting in a potential and maximum bonus of $14,500. The operating income bonus is calculated based upon achievement of the target resulting in a potential and maximum bonus of $14,500. The audience bonus is calculated based upon achievement of certain audience targets resulting in a potential and maximum bonus of $14,500. The total maximum Performance Bonus per quarter for the revenue, operating income and audience components combined is $43,500.

Mr. Stitt earned a quarterly bonus for revenue and operating income for the fourth quarter of 2017 and earned a quarterly bonus for the audience for the second and third quarters of 2017. Mr. Stitt received Performance Bonuses totaling $58,000 during 2017. For 2017, Mr. Stitt received 33% of the maximum Performance Bonus. The Company believes that targets set for North America revenue, operating income and audience targets align with the Company's desire to continue to grow the business.

Mr. Stitt also received a Discretionary Bonus determined by the Global Chief Executive Officer at his sole and absolute discretion. In exercising such discretion, the Global Chief Executive Officer takes into consideration Mr. Stitt's individual performance. In evaluating Mr. Stitt’s individual performance during 2017, the Global Chief Executive Officer considered factors such as Mr. Stitt’s leadership role in developing the North America business and team. Mr. Stitt received a Discretionary Bonus totaling $108,000 for 2017.

**Other Compensation-Related Matters**

The Company grants 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 certain executive officers, 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.

In October 2017, the Company granted Mr. Holger Bartel stock options to purchase 400,000 shares of common stock with an exercise price of $6.95, which vests in eight equal quarterly installments over a two-year period ending December 31, 2019. The Compensation Committee and Board of Directors considered Mr. Holger Bartel's duties and responsibilities as Global Chief Executive Officer.

*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 Ms. Reilly and Ms. Tarka. In 2017, 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 Global Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executive officers during the fiscal years ended December 31, 2017, 2016 and 2015.

| Name and Principal Position | Fiscal Year | Salary ($) | Bonus ($) (a) | Option Awards ($) (b) | Non-Equity Incentive Plan Compensation ($) (c) | All Other Compensation ($) (d) | Total ($) |
|---|---|---|---|---|---|---|---|
| Holger Bartel (1) | 2017 | 142,472 | — | 1,242,400 | — | 90,073 | 1,474,945 |
| Global Chief Executive Officer | 2016 | | | | | 231,720 | 231,720 |
| | 2015 | — | — | 1,767,200 | — | 231,720 | 1,998,920 |
| Glen Ceremony | 2017 | 470,000 | 62,502 | — | 50,000 | 4,036 | 586,538 |
| Chief Financial Officer | 2016 | 470,000 | 62,500 | | 53,333 | 4,168 | 590,001 |
| | 2015 | 470,000 | — | | 81,799 | 3,903 | 555,702 |
| Rachel Barnett (2) | 2017 | 316,945 | 20,685 | — | — | 3,846 | 341,476 |
| General Counsel and Director | | | | | | | |
| Vivian Hong (3) | 2017 | 311,972 | — | — | — | 170,194 | 482,166 |
| President, Asia Pacific | 2016 | 346,961 | 15,085 | | 7,543 | — | 369,589 |
| | 2015 | 284,904 | 179,178 | | 22,040 | — | 486,122 |
| Christian Smart (4) | 2017 | 225,564 | — | — | 121,662 | 45,922 | 393,148 |
| General Manager, Germany | | | | | | | |
| Michael Stitt | 2017 | 320,000 | 108,000 | — | 58,000 | 17,223 | 503,223 |
| President, North America | 2016 | 320,000 | 58,000 | 472,900 | 14,500 | 1,500 | 866,900 |
| | 2015 | 320,000 | 14,500 | | 69,139 | 1,500 | 405,139 |

### Notes to the Summary Compensation Table

(1) Mr. Holger Bartel ceased his role as Chairman of the Board on May 22, 2017, upon which his annual salary was set to $232,000 for his role as Global Chief Executive Officer. In addition, Mr. Holger Bartel was granted options on October 30, 2017.

(2) Ms. Barnett's annual salary is $350,000 effective May 22, 2017.

**Notes to the Summary Compensation Table**

(3) Ms. Hong's compensation is denominated in Chinese Yuan and was translated into U.S. dollars using the annual average daily exchange rate of ¥6.76 = $1.00 for 2017 and ¥6.63 = $1.00 for 2016 and ¥6.21 = $1.00 for 2015. Ms. Hong's employment terminated on November 1, 2017, and in exchange for executing a general release of claims received compensation of $170,194.

(4) Mr. Smart's compensation is denominated in Euro and was translated into U.S. dollars using the annual average daily exchange rate of €1.13 = $1.00 for 2017.

(a) Amounts consist of discretionary bonuses earned per the terms of employment agreements and/or at the discretion of the Chief Executive Officer or Board of Directors.

(b) 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. The grant date fair value of stock options is calculated 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 8 to the consolidated financial statements contained in our 2017 Annual Report on Form 10-K filed on March 16, 2018.

(c) 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.

(d) The amounts reflected in this column reflect all other compensation paid to the named executives as noted below:

Mr. Holger Bartel's other compensation represents Board of Directors fee paid to him in his role as Chairman of the Board through May 22, 2017.

Mr. Ceremony's other compensation for 2017, 2016 and 2015 is a $1,500 Company matching 401(k) plan contribution for each year and the remaining amount for each year for a bonus payment made to eligible employees.

Ms. Hong's other compensation for 2017 is a separation payment of $170,194.

Mr. Stitt's other compensation for 2017 is a $1,500 Company matching 401(k) plan contribution and a housing allowance of of $15,723, for 2016 and 2015 is for a $1,500 Company matching 401(k) plan contribution.

Mr. Smart's other compensation for 2017 is a car allowance of $27,758 and the remaining amount for a bonus payment made to eligible employees.

Ms. Barnett's other compensation for 2017 is a $1,500 Company matching 401(k) plan contribution for each year and the remaining amount for a bonus payment made to eligible employees.

**Grants of Plan-Based Awards in 2017**

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, 2017.

| | Estimated Possible Payouts Under Non-Equity Incentive Plan Awards | | |
|---|---|---|---|
| **Name** (1) | **Threshold ($)** | **Target ($)** | **Maximum ($)** |
| Holger Bartel | — | — | — |
| Glen Ceremony | 200,000 | 200,000 | 200,000 |
| Rachel Barnett | — | — | — |
| Vivian Hong | 88,797 | 88,797 | 88,797 |
| Christian Smart | 139,849 | 180,451 | 234,586 |
| Michael Stitt | 174,000 | 174,000 | 174,000 |

(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, 2017**

| | Option Awards | | | |
|---|---|---|---|---|
| **Name** | **Number of Securities Underlying Unexercised Options (#) Exercisable** | **Number of Securities Underlying Unexercised Options (#) Unexercisable** | **Option Exercise Price ($)** | **Option Expiration Date** |
| Holger Bartel (1) | 400,000 | — | 8.07 | September 28, 2025 |
| | — | 400,000 | 6.95 | October 30, 2027 |
| Glen Ceremony (2) | 50,000 | — | 28.98 | January 23, 2022 |
| Michael Stitt (3) | 25,000 | 75,000 | 8.55 | March 7, 2026 |

(1) The options are exercisable in quarterly increments of 12.5% from March 31, 2018 through December 31, 2019.
(2) The remaining unexercisable options became exercisable on January 23, 2016.
(3) The options are exercisable in annual increments of 25% from March 7, 2017 through March 7, 2020.

**Option Exercises and Stock Vested**

During the year ended December 31, 2017, there were no options exercised by any of our named executive officers. At December 31, 2017, 400,000 shares of Mr. Holger Bartel's stock options, 50,000 shares of Mr. Ceremony's stock options and 25,000 of Mr. Stitt's stock options, were vested.

**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, 2017 with the Company's named executive officers are described below.

Mr. Holger Bartel entered into an employment agreement with the Company on September 28, 2015. In connection with his employment agreement and his role as Global Chief Executive Officer, in September 2015 and October 2017, the Company provided stock option grants to Mr. Holger Bartel to purchase 400,000 shares of the Company's common stock for each grant. The Company may terminate the employment agreement, with or without cause, upon written notice to Mr. Holger Bartel. However, if Mr. Holger Bartel's employment is terminated at any time without cause, Mr. Holger Bartel's stock options to purchase a cumulative 800,000 shares of the Company's common stock will immediately vest in full on the date of termination.

Mr. Holger Bartel 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.

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, 2017 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, 2017 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 $14,375.

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. Barnett entered into an employment agreement with the Company on July 30, 2013. Pursuant to the terms of the agreement, Ms. Barnett is an at-will employee and the Company or Ms. Barnett may terminate the agreement, with or without cause, upon three weeks notice. However, if Ms. Barnett's employment is terminated at any time without cause, Ms. Barnett will be entitled to receive her base salary for a three month period in exchange for executing a general release of claims as to the Company. Assuming that Ms. Barnett was terminated by the Company as of December 31, 2017 without cause, Ms. Barnett would have been entitled to receive $87,500. If Ms. Barnett's employment is terminated at any time due to a change of control (as defined in the agreement) or if she is 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. Barnett will be entitled to receive her 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 Ms. Barnett was terminated by the Company as of December 31, 2017 following a change of control of the Company, Ms. Barnett would have been entitled to receive $175,000 and the Company would incur additional expenses for medical benefits of approximately $14,375.

Ms. Barnett 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 his interest in any and all such discoveries and work product to the Company. Furthermore, Ms. Barnett 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. Smart entered into an employment agreement with the Company on October 11, 2012. Pursuant to the terms of the agreement, Mr. Smart 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. Smart 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. Stitt entered into an employment agreement with the Company on September 30, 2015. Pursuant to the terms of the agreement, Mr. Stitt is an at-will employee and the Company or Mr. Stitt may terminate the agreement, with or without cause, upon two weeks notice. However, if Mr. Stitt's employment is terminated at any time without cause, Mr. Stitt 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. Stitt was terminated by the Company as of December 31, 2017 without cause, Mr. Stitt would have been entitled to receive $160,000. If Mr. Stitt'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. Stitt 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. Stitt was terminated by the Company as of December 31, 2017 following a change of control of the Company, Mr. Stitt would have been entitled to receive $160,000 and the Company would incur additional expenses for medical benefits of approximately $14,375.

Mr. Stitt 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. Stitt 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.

**Pay Ratio Disclosure**

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, the Company is providing the following information regarding the ratio of the total annual compensation for the Company's Global Chief Executive Officer (CEO) to the median of the annual total compensation of all Company employees (other than the Company's Global Chief Executive Officer).

For purposes of calculating the 2017 ratio of the median annual total compensation of all Company employees to the total annual compensation of the Company's Global CEO, the Company included in its calculation of compensation: base salary, commissions, annual bonus amounts, stock-based compensation (based on the grant date fair value of awards granted during 2017) and other incentive payments. The Company used December 31, 2017 as its measurement date. Total compensation for Mr. Holger Bartel, the Company's Global CEO was determined to be $1,474,945 and was approximately 25 times the median annual compensation of all Company employees, excluding the Global CEO, of $59,663. If stock based compensation amounts are excluded from the calculation, Mr. Bartel's annual compensation is approximately $232,545, or 4 times the median employee compensation of $59,663. For purposes of this calculation, the Company had 564 employees worldwide, excluding the Global CEO.

**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

Mary Reilly (*Chair*)
Beatrice Tarka

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows the amount of our common stock beneficially owned as of March 21, 2018 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 21, 2018, 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.

| | Beneficial Ownership | |
|---|---|---|
| **Beneficial Owner** | **Number of Shares (1)** | **Percent of Total (2)** |
| **Directors and Named Executive Officers** | | |
| Ralph Bartel (3) | 7,160,500 | 57.46% |
| Holger Bartel | 450,000 | 3.61% |
| Rachel Barnett | — | — |
| Glen Ceremony | 50,000 | ** |
| Vivian Hong | — | — |
| Michael Karg | — | — |
| Carrie Liqun Liu | — | — |
| Donovan Neale-May | — | — |
| Mary Reilly | — | — |
| Christian Smart | — | — |
| Michael Stitt | 53,500 | ** |
| Beatrice Tarka | — | — |
| Caroline Tsay | — | — |
| Directors and executive officers as a group (13 persons) | 7,714,000 | 61.90% |
| *** Persons Owning More Than 5% of Common Stock** | | |

** Less than 1%

(1) Represents shares subject to stock options that are exercisable on March 21, 2018 or become exercisable within 60 days of March 21, 2018. 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 12,461,553 shares of common stock outstanding as of March 21, 2018, plus the number of shares of common stock that such person or group had the right to acquire within 60 days after March 21, 2018.

(3) Ralph Bartel indirectly holds a controlling interest of Azzurro Capital Inc., which is the holder of 7,160,500 shares, through the Ralph Bartel 2005 Trust.

## 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 2017, all Section 16(a) filing requirements were satisfied on a timely basis, except the Form 3 for Mr. Christian Smart as General Manager, Germany, as the Company has now determined that Mr. Smart should be considered a named executive officer. Mr. Smart did not purchase or sell the Company's stock during fiscal year 2017.

## PRINCIPAL ACCOUNTANT FEES AND SERVICES

### Independent Public Accountants

PricewaterhouseCoopers LLP ("PwC") served as Travelzoo's independent registered public accounting firm for our 2017 and 2016 fiscal years and KPMG LLP ("KPMG") served as Travelzoo's independent registered public accounting firm for our 2015 fiscal year. The change in the Company's independent registered public accounting firm was previously disclosed in the Company's Form 8-K dated June 22, 2016. The Audit Committee has not yet selected our independent registered public accounting firm for our 2018 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. PwC 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.

### Principal Accountant Fees and Services

During fiscal years 2017 and 2016, PwC and KPMG total fees charged for services rendered to Travelzoo as follows:

| Service | 2017 Fees | 2016 Fees |
|---|---|---|
| Audit fees (1) | $ 1,201,674 | $ 1,197,855 |
| Audit-related fees | — | — |
| Tax fees | — | — |
| All other fees | 1,800 | 1,800 |
| Total | $ 1,203,474 | $ 1,199,655 |

(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. The 2017 and 2016 audit fees include KPMG fees of $131,524 and $305,355, respectively.

### 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 2017 and 2016, all services provided by PwC and 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, 2017. 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 PCAOB Auditing Standard No. 16 *Communications with Audit Committees*.

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, 2017 filed with the SEC. The committee has not yet selected Travelzoo's independent auditors for fiscal year 2018.

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*)
Carrie Liqun Liu
Beatrice Tarka

## 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, 2017, which was filed previously with the SEC and contains important information about the Company and its financial condition, including information contained in our 2017 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." A copy of the 2017 Annual Report accompanies 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, 590 Madison Avenue, 37th Floor, New York, New York 10022 or by telephone at (212) 484-4900. This proxy statement and the 2017 Annual Report are available on the Internet at 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. 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, 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 executive compensation, 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 2019 ANNUAL MEETING

It is contemplated that the next annual meeting of stockholders will be held on or about May 15, 2019. 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 2019 annual meeting must be received no later than November 27, 2018, to be included in the 2019 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 2019 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 no earlier than November 27, 2018 and not later than February 18, 2019. 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, 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, 590 Madison Avenue, 37th Floor, New York, New York 10022 or by telephone at (212) 484-4900.

RALPH BARTEL
*Chairman of the Board*

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

**TRAVELZOO**

**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 (the "Company") on May 15, 2018, 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, for Proposal 3, 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**

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
U.S.A.

This proxy card is only valid only when signed and dated.

**The Board of Directors recommends a vote FOR all the listed nominees under Proposal 1**

1. ELECTION OF DIRECTORS

| **For All** | **Withhold All** | **For All Except** |
|---|---|---|
| ☐ | ☐ | ☐ |

To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the number (s) of the nominee (s) on the line below.

______________________________________

**Nominees**

01 Ralph Bartel 02 Rachel Barnett 03 Carrie Liqun Liu 04 Mary Reilly 05 Beatrice Tarka

| **The Board of Directors recommends you vote FOR Proposals 2 and 3:** | **For** | **Against** | **Abstain** |
|---|---|---|---|
| 2. APPROVAL OF OPTION GRANT TO EXECUTIVE OFFICER | ☐ | ☐ | ☐ |
| 3. ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION | ☐ | ☐ | ☐ |

**NOTE**: Such other business as may properly come before the meeting or any adjournment thereof.

Please sign exactly as name (s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Join owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

| Signature (Please sign within box) | Date | Signature (Joint Owners) | Date |
|---|---|---|---|

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

# Form 10-K

**(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, 2017**
**or**

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

**For the transition period from to .**
**Commission File No.: 000-50171**

# Travelzoo
**(Exact name of registrant as specified in its charter)**

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

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

**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 | ☐ | Accelerated filer | ☒ |
| Non-accelerated filer | ☐ (Do not check if a smaller reporting company) | Smaller reporting company | ☐ |

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

As of June 30, 2017, 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 $60,608,896.

The number of shares of the Registrant's common stock outstanding as of February 9, 2018 was 12,461,553 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement for its 2018 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**

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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 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 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. 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.

### Item 1. *Business*

### Overview

Travelzoo® provides our 28 million members insider deals and one-of-a-kind experiences personally reviewed by one of our deal experts around the globe. With more than 25 offices worldwide, we have our finger on the pulse of outstanding travel, entertainment, and lifestyle experiences. For over 15 years we have worked in partnership with more than 2,000 top travel suppliers—our long-standing relationships give Travelzoo members access to the very best deals.

Travelzoo (the “Company”) attracts a high-quality audience of travel and leisure enthusiasts across multiple digital platforms, including e-mail, web, social media and mobile applications. Our e-mail newsletters are published in 11 countries worldwide. Travelzoo’s website is visited by 9.0 million unique visitors each month. We reach an audience of millions of 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 4.1 million followers on Facebook and Twitter. Our mobile applications have been downloaded 5.5 million times.

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

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

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.

During the first quarter of 2017, the Company discontinued the operations of its SuperSearch and Fly.com products to focus on its global Travelzoo® brand and reflected the revenues and expenses for these products as discontinued operations, net of taxes, for the current and prior periods presented. See Note 11 to the accompanying consolidated financial statements

We have three operating segments based on geographic regions: Asia Pacific, Europe and North America. Asia Pacific consists of our operations in Australia, China, Hong Kong, Japan, Taiwan, and Southeast Asia. Europe consists of our operations in France, Germany, Spain, and the U.K. North America consists of our operations in Canada and the U.S. For the year ended December 31, 2017, Asia Pacific operations were 7% of revenues, European operations were 32% of revenues and North American operations were 61% of our total revenues. Financial information with respect to our business segments and certain financial information about geographic areas appears in Note 10 to the accompanying consolidated financial statements.

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

Ralph Bartel, who founded Travelzoo and who is a Director of the Company, is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro Capital Inc. ("Azzurro"). As of December 31, 2017, Azzurro is the Company's largest stockholder, holding approximately 57.8% of the Company's outstanding shares.

As of December 31, 2017, there were 12,461,553 shares of common stock outstanding.

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

**Our Industry**

Our mission is to provide our audience with the highest quality information about the best travel, entertainment and local deals. We believe there is a sizable travel and entertainment industry in which we participate in that provides an opportunity to find high quality deals for our members and users. According to the World Trade & Tourism Council, global Travel & Tourism produced $7.6 trillion in value (10.2% of global GDP) for the global economy in 2016 and spending on leisure travel is expected to rise by 4.1% per year to $5,917.7 billion in 2027. Based upon this outlook for the travel industry, we believe that we are well positioned with our operations in Asia, Europe and North America to capture high quality deals for our members and users.

While our mission is to provide our audience with the highest quality information about the best travel, entertainment and local deals, our revenues are generated from advertising fees. According to Zenith Media (Publicis Media), global advertising expenditure is expected to grow 4.1% in 2018 and reach a total spend of $578 billion by the end of 2018. Digital advertising is expected to grow 10% per year between 2017 and 2020. By 2020, digital advertising is forecast to account for 44% of global advertising spend. In addition, according to the Kelsey Group's (BIA/Kelsey) new U.S. Local Media Forecast 2017, BIA/Kelsey forecasts total local advertising to reach $151.2 billion in 2018. Digital advertising continues to increase its share of total local advertising, growing from $31.7 billion (23%) in 2014 to $52.7 billion (33.2%) in 2018. We believe that traditional media outlets such as newspapers, television and radio continue to be another medium for travel, entertainment and local businesses to advertise their offers, though the percentage spent on advertising in these traditional media outlets is decreasing. In addition, the continued rise in smart phones has changed the business rules for online marketing, with the consumption of online advertising rapidly moving to mobile devices.

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 advertisers, and deliver relevant and useful ads to users on the go. We continue to invest in improving users' access to our services through such devices.

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

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

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

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

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

**Our Products and Services**

We provide airlines, hotels, cruise lines, vacation packagers, other travel suppliers, entertainment and local businesses with a fast, flexible, and cost-effective way to reach millions of Internet users. Our publications include the *Travelzoo* websites, the *Travelzoo Top 20* e-mail newsletter, the *Newsflash* e-mail alert service, and the *Local Deals* and *Getaway* e-mail alert services. We operate the *Travelzoo Network*, a network of third-party websites that list deals published by Travelzoo. While our products provide advertising opportunities for travel, entertainment and local businesses, they also provide Internet users with a free source of information on current sales and specials from thousands of travel, entertainment and local businesses.

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

The following table presents an overview of our products:

| Product | Content | Publication Schedule | Reach/Usage* | Advertiser Benefits | Consumer Benefits |
|---|---|---|---|---|---|
| *Travelzoo websites* | Websites in the U.S., Australia, Canada, China, France, Germany, Singapore, 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 |
| *Travelzoo Top 20* | Popular e-mail newsletter listing 20 of the week's most outstanding deals | Weekly | 28.0 million members | Mass “push” advertising vehicle to quickly stimulate incremental travel and entertainment purchases | Weekly access to 20 outstanding, handpicked deals chosen from among thousands |
| *Newsflash* | Regionally-targeted e-mail alert service with a single time-sensitive and newsworthy travel and entertainment offer | Within two hours of an offer being identified | 26.0 million members | Regional targeting, 100% share of voice for advertiser, flexible publication schedule | Breaking news offers delivered just-in-time |
| *Local Deals and Getaway* | Locally-targeted e-mail alert service with a single time-sensitive and newsworthy offer from local merchants such as spas and restaurants | Twice per week in active markets | 153 local markets | Local targeting by zip code,100% share of voice for the local businesses, flexible publication schedule | Breaking news offers delivered just-in-time |
| *Travelzoo Network* | A network of third-party websites that list outstanding deals published by Travelzoo | 24/7 | Over 400 third-party websites | Drives qualified users with substantial distribution beyond the Travelzoo audience | Contextually relevant travel deals that have been handpicked and professionally reviewed |
| *Travelzoo Mobile Applications* | iPhone and Android applications that allow users to discover the best Travel, Entertainment and Local Deals. | On-demand | 5.5 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. |

* For *Travelzoo* websites, reach information is based on data from Google Analytics. For *Top 20, Newsflash, Local Deals* and *Getaway, Travelzoo Network and Travelzoo* mobile applications, reach/usage information is based on internal Travelzoo statistics as of December 31, 2017.

**Our Audience**

We attract a high-quality audience of travel and leisure enthusiasts across multiple digital platforms, including e-mail, web, social media and mobile apps. We inform our audience about travel, entertainment and local deals available at over 2,000 companies. Our e-mail newsletters are published in 11 countries worldwide. Travelzoo’s website is visited by 9.0 million unique visitors each month. We reach an audience of millions of 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 4.1 million followers on Facebook and Twitter. Our mobile applications have been downloaded 5.5 million times.

**Benefits to Travel, Entertainment and Local Businesses**

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

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

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

Key features of our solution for local businesses include:

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

**Benefits to Consumers**

Our *Travelzoo* websites, *Travelzoo Top 20* e-mail newsletter, *Newsflash, Local Deals, Getaway,* and the *Travelzoo Network,* 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.

**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 to grow engagement of our user base, by offering products that deliver high-quality deals with exceptional value and expanding our product offering over time to address frequent travel and leisure needs, including the desire to access our content via mobile devices and to search and book hotels via a hotel booking platform.

**Advertisers**

As of December 31, 2017, 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 France | InterContinental Hotels Group |
| Air New Zealand | JPB Corporation |
| British Airways | Lion World Travel |
| Cathay Pacific Airways | Lufthansa |
| Ctrip | Nexus Holidays |
| Emirates | Princess Cruises |
| Etihad | Royal Caribbean |
| Expedia | Singapore Airlines |
| Fairmont Hotels and Resorts | Starwood Hotels & Resorts Worldwide |
| Hawaiian Airlines | Tourism Australia and Tourism Ireland |
| Hilton Hotels & Resorts | United Airlines |

As discussed in Note 10 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, 2017, 2016 and 2015. The agreements with certain advertisers are in the form of multiple insertion orders and merchant agreements from groups of entities under common control.

In 2017, 7% of our total revenues were generated from our Asia Pacific operations, 32% of our total revenues were generated from our European operations and 61% of our total revenues were generated from our North American operations. See Note 10 to the accompanying consolidated financial statements.

**Sales and Marketing**

As of December 31, 2017, our advertising sales force and sales support staff consisted of 149 employees worldwide.

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

**Technology**

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

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

**Competition**

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

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

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

**Government Regulation and Legal Uncertainties**

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

*Privacy Concerns.* We are subject to a number of privacy and similar laws and regulations in the countries in which we operate and these laws and regulations will likely continue to evolve over time, both through regulatory and legislative action and judicial decisions. The European Union has adopted a new data protection legal framework, effective in May 2018, which may result in a greater compliance burden for companies, including us, with users in Europe and increased costs of compliance. Complying with these varying national requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business and violations of privacy-related laws can result in significant penalties. We post on our websites our privacy policies and practices concerning the collection, use and disclosure of user data. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any regulatory requirements or orders or other federal, state or international privacy laws and regulations could result in proceedings or actions against us by governmental entities or others, subject us to penalties and negative publicity, require us to change our business practices, and increase our costs and adversely affect our business.

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

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

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

**Intellectual Property**

Our success depends to a significant degree upon the protection of our brand names, including *Travelzoo* and *Top 20.* If we were unable to protect the *Travelzoo* and *Top 20* brand names, our business could be materially adversely affected. We rely upon a combination of copyright, trade secret and trademark laws to protect our intellectual property rights. We have registered the *Travelzoo* and *Top 20* trademarks, among others, with the United States Patent and Trademark Office. We have registered the *Travelzoo* and *Travelzoo Top 20* trademarks with the Office for Harmonization in the Internal Market of the European

Community. We have registered the *Travelzoo* trademark in Australia, Canada, China, Hong Kong, Japan, South Korea, and Taiwan. The steps we have taken to protect our proprietary rights, however, may not be adequate to deter misappropriation of proprietary information.

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

**Employees**

As of December 31, 2017, we had 442 employees in Asia Pacific, Europe and North America. None of our employees are represented under collective bargaining agreements. We consider our relations with our employees to be good.

**Internet Access to Other Information**

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

**Item 1A.** ***Risk Factors***

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

**Risks Related to Our Financial Condition and Business Model**

***We cannot assure you that we will be profitable.***

In the years ended December 31, 2017, 2016 and 2015, we generated net income of $3.5 million, $6.6 million and $10.9 million, respectively. Although we were profitable in 2017, 2016 and 2015, there is no assurance that we will be profitable in the future. We forecast our future expense levels based on our operating plans and our estimates of future revenues. We may find it necessary to significantly accelerate expenditures relating to our sales and marketing efforts or otherwise increase our financial commitment to creating and maintaining brand awareness among Internet users and advertisers. We may also expand and upgrade our technology and make investments in our products as well as develop new products that may impact our profitability. If our revenues grow at a slower rate than we anticipate or decline, or if our spending levels exceed our expectations or cannot be adjusted to reflect slower revenue growth, we may not generate sufficient revenues to be profitable. Any of these developments could result in a significant decrease in the trading price of our common stock.

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

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

- mismatches between resource allocation and client demand due to difficulties in predicting client demand in a new market;
- changes in general economic conditions that could affect marketing efforts generally and online marketing efforts in particular;
- the magnitude and timing of marketing initiatives, including our acquisition of new members and our expansion efforts in other regions;
- the introduction, development, timing, competitive pricing and market acceptance of our products and services and those of our competitors;
- our ability to attract and retain key personnel;

- our ability to manage our planned growth;
- our ability to attract users to our websites, which may be adversely affected by the audience shift to mobile devices;
- technical difficulties or system downtime affecting the Internet generally or the operation of our products and services specifically; and
- volatility of our operating results in new markets.

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

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

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

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

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

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

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

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

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

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

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

***We may have exposure to additional tax liabilities.***

As a global company, we are subject to income taxes as well as non-income based tax, in both the U.S. and various foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities. Although we believe that our tax estimates are reasonable, there is no assurance that the final determination of tax audits or tax disputes will not be different from what is reflected in our historical income tax provisions and accruals. Changes in tax laws or tax rulings may have a significantly adverse impact on our effective tax rate. On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act includes significant changes to the U.S. corporate income tax system including: a federal corporate rate reduction from 35% to 21%; limitations on the deductibility of interest expense and executive compensation; creation of new minimum taxes such as the base erosion anti-abuse tax ("BEAT") and Global Intangible Low Taxed Income ("GILTI") tax; and the transition of U.S. international taxation from a worldwide tax system to a modified territorial tax system, which will result in a one time U.S. tax liability on those earnings which have not previously been repatriated to the U.S. (the "Transition Tax"). In addition, limitations on the use of net operating losses to offset income for tax years after December 31, 2017 may limit our ability to benefit from accumulated net operating losses in the future.

We are also subject to non-income based taxes, such as value-added, payroll, sales, use, net worth, property and goods and services taxes, in both the U.S. and various foreign jurisdictions.

From time to time, the Company is under audit by tax authorities with respect to these non-income based taxes and may have exposure to additional non-income based tax liabilities. These examinations may lead to ordinary course adjustments or proposed adjustments to its taxes or its net operating income or may result in recognition of previously unrecognized tax benefits upon completion of the examination.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Changes to our technology and user interfaces for our website and mobile applications used to present our deals could adversely affect our revenue and business.***

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

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

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

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

For the year ended December 31, 2017, our cash and cash equivalents decreased by $4.3 million to $22.6 million, of which $16.4 million was held outside the U.S. in certain of our foreign operations. We intend to continue to grow our business and fund our current operations using cash on hand. However, this may not be sufficient to meet our needs, including the payments required to settle various commitments and contingencies, as described under Note 4 and 5 to the accompanying consolidated financial statements. We may not be able to obtain financing on commercially reasonable terms, or at all.

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

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

***Our business may be sensitive to recessions.***

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

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

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

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

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

***We are subject to payments-related risks.***

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

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

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

**Risks Related to Our Markets and Strategy**

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

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

Our revenues in Asia decreased 22% in 2017 compared to 2016, and our operations in Asia generated an operating loss before tax of $6.0 million and $3.9 million in 2017 and 2016, respectively. Our revenues in Europe decreased 9% in 2017 compared to 2016, and our operations in Europe generated an operating income before tax of $2.3 million and $5.6 million in 2017 and 2016, respectively.

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

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

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

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

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

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

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

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

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

We spent $6.8 million, $8.0 million and $9.5 million on online marketing initiatives relating to member acquisition for years ended December 31, 2017, 2016 and 2015 and expect to continue to spend significant amounts to acquire additional members. We must continue to retain and acquire members in order to maintain or increase revenue. We cannot assure you that the revenue from members we acquire will ultimately exceed the cost of acquiring new members. If members do not perceive our offers to be of high value and quality or if we fail to introduce new and more relevant deals, we may not be able to acquire or retain members. If we reduce our member acquisition costs, we cannot assure you that this will not adversely impact our ability to acquire new members. If we are unable to acquire new members who purchase our deals directly or indirectly in numbers sufficient to grow our business, or if members cease to purchase our deals directly or indirectly through our advertisers, the revenue we generate may decrease and our operating results will be adversely affected. If the level of usage by our member base declines or does not grow as expected, we may suffer a decline in member growth or revenue. A significant decrease in the level of usage or member growth would have an adverse effect on our business, financial condition and results of operations. In addition, a shift of our audience to mobile devices and social media channels without corresponding updates of our offerings or marketing activities to address this audience could result in lower revenues.

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

Events like the Middle East conflicts, the global financial crisis of 2008, the terrorist attacks in France, Turkey, Belgium and Germany, mass shooting incidents such as in Las Vegas and the recent natural disasters, such as hurricanes, fires and floods in the United States and the Caribbean, have a negative impact on the travel industry and affect travelers' behavior. In addition, advertisers may choose to limit advertising spend on certain destinations given the recent terror attacks and natural disasters, which can adversely impact our business. We are not in a position to evaluate the net effect of these circumstances on our business; however, we believe there has been negative impact to our business by such events. Furthermore, in the longer term, our business might be negatively affected by financial pressures on the travel industry. If such events result in a long-term negative impact on the travel industry, such impact could have a material adverse effect on our business.

In addition, the United Kingdom’s vote to exit from the European Union could lead to economic uncertainty and have a negative impact on the travel industry and our European business. The United Kingdom could lose access to the single European Union market, travel between the United Kingdom and European Union countries could be restricted, and we could face new regulatory costs and challenges, the scope of which are presently unknown.

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

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

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

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

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

- changes in travel company, entertainment company, and Internet user requirements.

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

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

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

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

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

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

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

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

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

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

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

We use data technology and software products from third parties, and technology from our vendors may not continue to be available to us on commercially reasonable terms, or at all. Our business will suffer if we are unable to access technology, to gain access to additional products or to integrate new technology with our existing systems. This could cause delays in our development and introduction of new services and related products or enhancements of existing products until equivalent or replacement technology can be accessed, if available, or developed internally, if feasible. If we experience these delays, our business could be materially adversely affected.

We also rely on certain third party computer systems and third party service providers, including Global Distribution Systems and computerized central reservation systems, in connection with providing certain of our hotel booking services. Any interruption in these third party services and systems or deterioration in their performance could prevent us from utilizing certain booking services and have an adverse effect on our business, brands and results of operations. Our agreements with some third party service providers are terminable upon short notice and often do not provide recourse for service interruptions.

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

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

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

- Diversion of management time and focus from operating our business to acquisition integration challenges.

- Implementation or remediation of controls, procedures, and policies at the acquired company.

- Integration of the acquired company's accounting, human resource, and other administrative systems, and coordination of product, engineering, and sales and marketing functions.

- Transition of operations, users, and customers onto our existing platforms.

- Failure to obtain required approvals on a timely basis, if at all, from governmental authorities, or conditions placed upon approval, under competition and antitrust laws which could, among other things, delay or prevent us from completing a transaction, or otherwise restrict our ability to realize the expected financial or strategic goals of an acquisition.

- In the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political, and regulatory risks associated with specific countries.

- Failure to successfully further develop the acquired business or technology.

- Cultural challenges associated with integrating employees from the acquired company into our organization, and retention of employees from the businesses we acquire.

- Liability for activities of the acquired company before the acquisition, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities, and other known and unknown liabilities.

- Litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders, or other third parties.

- Challenges relating to the structure of an investment, such as governance, accountability and decision-making conflicts that may arise in the context of a joint venture.

- Expected and unexpected costs incurred in pursuing acquisitions, including identifying and performing due diligence on potential acquisition targets that may or may not be successful.

- Entrance into markets in which we have no direct prior experience and increased complexity in our business.

- Inability to sell disposed assets.

- Impairment of goodwill and other assets acquired or divested.

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

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

**Risks Related to the Market for our Shares**

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

The trading price of our common stock has been and may continue to be subject to wide fluctuations. During the twelve months ended February 9, 2018, the closing price of our common stock on the NASDAQ Global Select Market ranged from $5.95 to $11.20. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results; announcements of technological innovations or new products by us or our competitors; changes in financial estimates and recommendations by securities analysts; the operating and stock price performance of other companies that investors may deem comparable to us; and news reports relating to trends in our markets or general economic conditions. Our stock price may be volatile given that operating results may vary from the expectations of securities analysts and investors, which are beyond our control. In the event that our operating results fall below the expectations of securities analysts or investors, the trading price of our common shares may decline significantly. Moreover, fluctuations in our stock price and our price-to-earnings multiple may have made our stock attractive to hedge or day-trading investors who often shift funds into and out of stocks rapidly, exacerbating price fluctuations in either direction, particularly when viewed on a quarterly basis.

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

***We have a principal stockholder.***

Ralph Bartel, who founded Travelzoo and who is a Director of the Company, is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro. As of December 31, 2017, Azzurro is the Company's largest stockholder, holding approximately 57.8% of the Company's outstanding shares.

**Risks Related to Legal Uncertainty**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, we may acquire personal or confidential information, including credit card information, from users of our websites and mobile applications, related to our *Local Deals* and hotel booking platform. Our existing security measures may not be successful in preventing security breaches. For example, outside parties may attempt to fraudulently induce employees, merchants or customers to disclose sensitive information in order to gain access to our secure systems and networks. A party (whether internal, external, an affiliate or unrelated third party) that is able to circumvent our security systems could steal consumer information or transaction data or other proprietary information. In the last few years, several major companies, such as Target, Home Depot, Zappos, LinkedIn and Sony, have experienced high-profile security breaches that exposed their customers' personal information. A security breach at any travel service provider, hotel, payment processor, GDS or other third party travel supplier, such as the security breach experienced by Sabre, could result in negative publicity and exposure, as well as damage to the reputations of the hotels impacted by the incident.

While we strive to use commercially acceptable means to protect customer personal information, no method of transmission over the Internet, or method of electronic storage, is 100% secure. Further, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. These issues are likely to become more difficult to manage as we expand the number of places where we operate and as the tools and techniques used in such attacks become more advanced. Security breaches or the unauthorized disclosure of customer personal information could result in negative publicity, damage our reputation, expose us to risk of loss or litigation and possible liability and subject us to regulatory penalties and sanctions. Any failure or perceived failure by us, or our service providers, to comply with the privacy policies, privacy-related obligations to users or other third parties, or privacy related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other user data, may result in governmental enforcement actions, litigation or public statements against the company by consumer advocacy groups or others and could cause our customers and members to lose trust in the company, which could have an adverse effect on our business. If our security measures are breached, or if our services are subject to attacks that degrade or deny the ability of users to access our products and services, our products and services may be perceived as not being secure, users and customers may curtail or stop using our products and services, and we may incur significant legal and financial exposure.

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

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

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

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

Although the Company has settled the states' unclaimed property claims with all states, the Company may still receive inquiries from certain potential Netsurfer promotional stockholders that had not provided their state of residence to the Company by April 25, 2004. Therefore, the Company is continuing its voluntary program under which it makes cash payments to individuals related to the promotional shares for individuals whose residence was unknown by the Company and who establish that they satisfy the original conditions required for them to receive shares of Travelzoo.com Corporation, and who failed to submit requests to convert their shares into shares of Travelzoo within the required time period. This voluntary program is not available for individuals whose promotional shares have been escheated to a state by the Company, except those individuals for which their residence was unknown to the Company. The accompanying consolidated financial statements include a charge for payments under this voluntary program in general and administrative expenses of $1,000, $2,000 and $1,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

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

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

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

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

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

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

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

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

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

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

## **Item 1B.** ***Unresolved Staff Comments***

None.

## **Item 2.** ***Properties***

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

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

**Item 3.** ***Legal Proceedings***

The information set forth under “Note 4 - 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." 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 |
|---|---|---|
| **2017:** | | |
| Fourth Quarter | $ 9.00 | $ 5.95 |
| Third Quarter | $ 11.20 | $ 7.75 |
| Second Quarter | $ 10.95 | $ 8.90 |
| First Quarter | $ 10.35 | $ 8.35 |
| **2016:** | | |
| Fourth Quarter | $ 12.77 | $ 9.15 |
| Third Quarter | $ 13.16 | $ 7.72 |
| Second Quarter | $ 8.23 | $ 7.56 |
| First Quarter | $ 8.55 | $ 6.71 |

On February 9, 2018, the last reported sales price of our common stock on the NASDAQ Global Select Market was $6.45 per share.

As of February 9, 2018, there were approximately 198 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 2017.

### Repurchases of Equity Securities

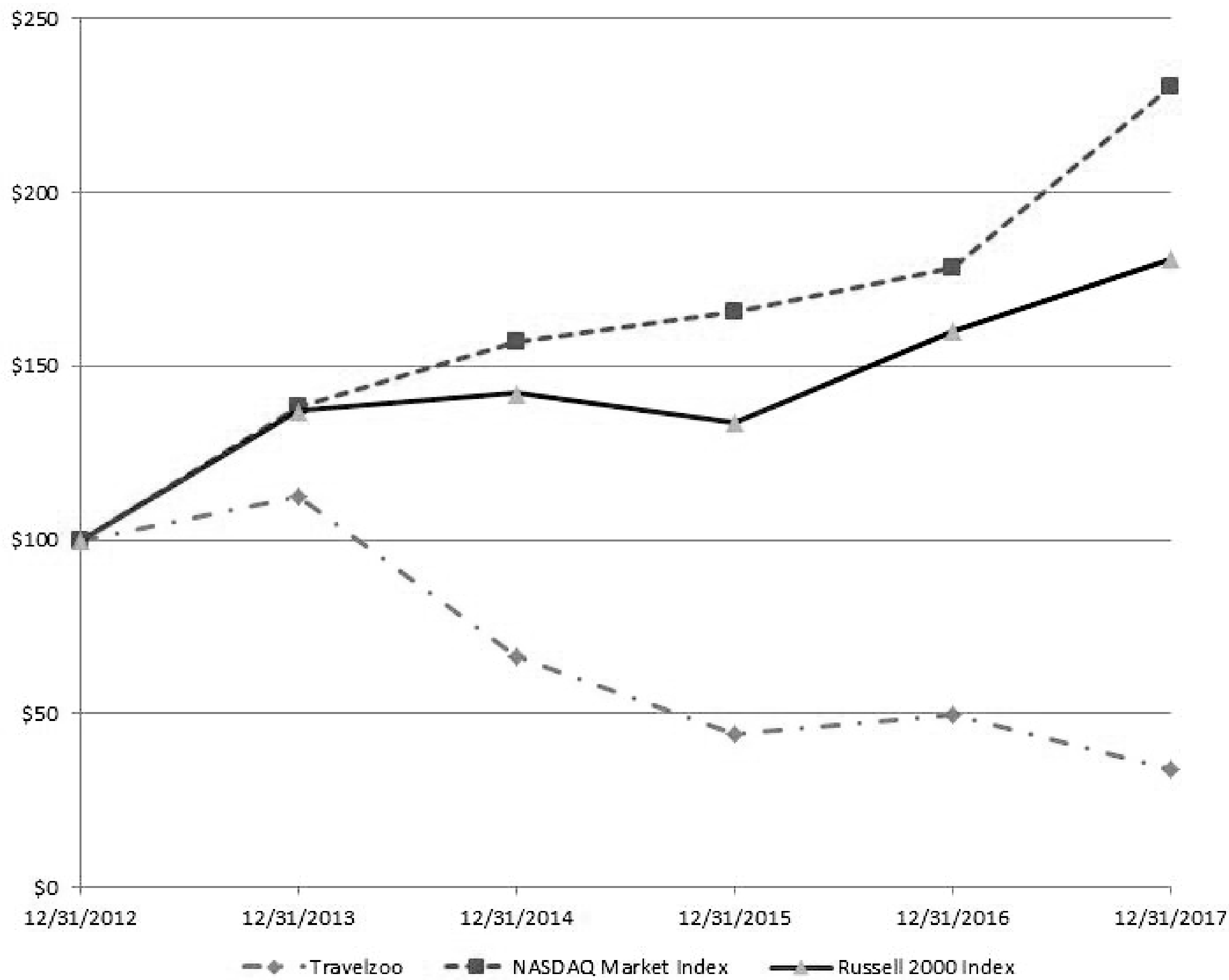
We repurchased 3,000 shares of our equity securities during the three months ended December 31, 2017.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Maximum Shares that May Yet be Purchased Under the Programs (1) |
|---|---|---|---|---|
| October 1, 2017 - October 31, 2017 | 3,000 | $ 8.78 | 3,000 | — |
| November 1, 2017 - November 30, 2017 | — | $ — | — | — |
| December 1, 2017 - December 31, 2017 | — | $ — | — | — |
| | 3,000 | | 3,000 | |

(1) In July 2012, the Company announced a stock repurchase program authorizing the repurchase of up to 1,000,000 shares of the Company's outstanding common stock. As of December 31, 2013, 971,000 shares were repurchased and therefore there were 29,000 shares remaining to be repurchased under this program. In January 2014, the Company announced a stock repurchase program authorizing the repurchase of up to 500,000 shares of the Company's outstanding common stock. During the year ended December 31, 2014, the Company repurchased 261,000 shares of common stock, and therefore there were 268,000 shares remaining to be repurchased under this program as of December 31, 2014. During the year ended December 31, 2015, the Company repurchased 212,000 shares of common stock and therefore there were 56,000 shares remaining to be repurchased under this program as of December 31, 2015. In February 2016, the Company announced a stock repurchase program authorizing the repurchase of up to 1,000,000 shares of the Company's outstanding common stock. During the year ended December 31, 2016, the Company repurchased 1,056,000 shares of common stock and therefore there were no shares remaining to be repurchased under the repurchase programs authorized in January 2014 and January 2016 as of December 31, 2016. During the three months ended December 31, 2016, the Company repurchased 364,000 shares of common stock. In February 2017, the Company announced a stock repurchase program authorizing the repurchase of up to 1,000,000 shares of the Company's outstanding common stock. During the year ended December 31, 2017, the Company repurchased 1,000,000 shares of common stock and therefore there were no shares remaining to be repurchased under the repurchase programs authorized February 2017 as of December 31, 2017. During the three months ended December 31, 2017, the Company repurchased 3,000 shares of common stock.
In March 2018, the Company announced a stock repurchase program authorizing the repurchase of up to 500,000 shares of the Company's outstanding common stock.

**Performance Graph**

The following graph compares, for the dates specified, the cumulative total stockholder return for Travelzoo, the NASDAQ Stock Market (U.S. companies) Index (the “NASDAQ Market Index”), and the Standard & Poor's 500 Publishing Index (the “S&P 500 Publishing”). Measurement points are the last trading day of each of the Company's fiscal years ended December 31, 2013, December 31, 2014, December 31, 2015, December 31, 2016, and December 31, 2017. The graph assumes that $100 was invested on December 31, 2011 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 | 12/31/2012 | 12/31/2013 | 12/31/2014 | 12/31/2015 | 12/31/2016 | 12/31/2017 |
|---|---|---|---|---|---|---|
| Travelzoo | $ 100.00 | $ 112.27 | $ 66.46 | $ 44.08 | $ 49.50 | $ 33.97 |
| NASDAQ Market Index | $ 100.00 | $ 138.32 | $ 156.85 | $ 165.84 | $ 178.28 | $ 230.18 |
| Russell 2000 Index | $ 100.00 | $ 136.82 | $ 141.87 | $ 133.57 | $ 159.93 | $ 180.82 |

**Item 6.** ***Selected Consolidated Financial Data***

The selected consolidated financial data set forth below for the years ended December 31, 2017, 2016 and 2015 are derived from our audited consolidated financial statements. The selected consolidated financial data set forth below for the years ended December 31, 2014 and 2013 represent unaudited consolidated financial statements presented on a basis consistent with those for years ended December 31, 2017, 2016 and 2015. The financial results for Travelzoo have been retrospectively adjusted to include the financial results of Asia Pacific in the current and prior periods as though the transaction occurred at the beginning of each period presented. See Note 11 to the accompanying consolidated financial statements for further information related to the acquisition of the Travelzoo Asia Pacific business. The following selected consolidated financial data is qualified in its entirety by, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the notes thereto included elsewhere herein.

**Consolidated Statement of Operations Data:**

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| | (In thousands, except per share data) | | | | |
| Revenues | $ 106,524 | $ 114,263 | $ 123,961 | $ 134,243 | $ 145,314 |
| Income (loss) from operations | 4,545 | 10,186 | 3,820 | 13,798 | (2,325) |
| Income (loss) from continuing operations, net of taxes | 1,592 | 6,007 | 8,523 | 10,323 | (8,939) |
| Income from discontinued operations, net of taxes | 1,938 | 624 | 2,341 | 2,739 | 2,357 |
| Net income (loss) | $ 3,530 | $ 6,631 | $ 10,864 | $ 13,062 | $ (6,582) |
| Income (loss) per share—basic: | | | | | |
| Continuing operations | $ 0.12 | $ 0.43 | $ 0.58 | $ 0.70 | $ (0.58) |
| Discontinued operations | 0.15 | 0.04 | 0.16 | 0.18 | 0.15 |
| Net income (loss) per share | $ 0.27 | $ 0.47 | $ 0.74 | $ 0.88 | $ (0.43) |
| Income (loss) per share—diluted: | | | | | |
| Continuing operations | $ 0.12 | $ 0.43 | $ 0.58 | $ 0.70 | $ (0.58) |
| Discontinued operations | 0.15 | 0.04 | 0.16 | 0.18 | 0.15 |
| Net income (loss) per share | $ 0.27 | $ 0.47 | $ 0.74 | $ 0.88 | $ (0.43) |
| Shares used in per share calculation from continuing operations—basic | 12,882 | 13,997 | 14,722 | 14,768 | 15,269 |
| Shares used in per share calculation from discontinued operations—basic | 12,882 | 13,997 | 14,722 | 14,768 | 15,269 |
| Shares used in per share calculation from continuing operations—diluted | 12,894 | 13,997 | 14,722 | 14,809 | 15,269 |
| Shares used in per share calculation from discontinuing operations—diluted | 12,894 | 13,997 | 14,722 | 14,809 | 15,355 |

**Consolidated Balance Sheet Data:**

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| | (In thousands) | | | | |
| Cash and cash equivalents | $ 22,553 | $ 26,838 | $ 35,128 | $ 55,417 | $ 68,668 |
| Working capital | $ 7,646 | $ 14,643 | $ 16,046 | $ 36,259 | $ 29,194 |
| Total assets | $ 45,672 | $ 53,530 | $ 68,579 | $ 93,307 | $ 119,440 |
| Stockholders' equity | $ 13,078 | $ 18,064 | $ 21,387 | $ 35,827 | $ 30,096 |

**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® provides our 28 million members insider deals and one-of-a-kind experiences personally reviewed by one of our deal experts around the globe. With more than 25 offices worldwide, we have our finger on the pulse of outstanding travel, entertainment, and lifestyle experiences. For over 15 years we have worked in partnership with more than 2,000 top travel suppliers—our long-standing relationships give Travelzoo members access to the very best deals.

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

More than 2,000 companies use our services, including Air France, Air New Zealand, British Airways, Cathay Pacific Airways, Ctrip, Emirates, Etihad, Expedia, Fairmont Hotels and Resorts, Hawaiian Airlines, Hilton Hotels & Resorts, InterContinental Hotels Group, JPB Corporation, Lion World Travel, Lufthansa, Nexus Holidays, Princess Cruises, Royal Caribbean, Singapore Airlines, Starwood Hotels & Resorts Worldwide, Tourism Australia, Tourism Ireland, and United Airlines.

During the first quarter of 2017, the Company discontinued the operations of its *SuperSearch* and *Fly.com* products to focus on its global Travelzoo® brand and reflected the revenues and expenses for these products as discontinued operations, net of taxes, for the current and prior periods presented. See "Note 11: Discontinued Operations" to the accompanying unaudited consolidated financial statement for further information.

We have three operating segments based on geographic regions: Asia Pacific, Europe and North America. Asia Pacific consists of our operations in Australia, China, Hong Kong, Japan, Taiwan, and Southeast Asia. Europe consists of our operations in France, Germany, Spain, and the U.K. North America consists of our operations in Canada and the U.S. For the year ended December 31, 2017, Asia Pacific operations were 7% of revenues, European operations were 32% of revenues and North American operations were 61% of our total revenues. Financial information with respect to our business segments and certain financial information about geographic areas appears in Note 10 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 two separate groups of our advertising products: Travel and Local.

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

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

**Trends in Our Business**

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

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

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

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

Our ability to continue to generate advertising revenue depends heavily upon our ability to maintain and grow an attractive audience for our publications. We monitor our members to assess our efforts to maintain and grow our audience reach. We obtain additional members and activity on our websites by acquiring traffic from Internet search companies. The costs to grow our audience have had, and we expect will to continue to have, a significant impact on our financial results and can vary from period to period. We may have to increase our expenditures on acquiring traffic to continue to grow or maintain our reach of our publications due to competition. We continue to see a shift in the audience to accessing our services through mobile devices and social media. We are addressing this growing channel of our audience through development of our mobile applications and through marketing on social media channels. However, we will need to keep pace with technological change and this trend to further address this shift in the audience behavior in order to offset any related declines in revenue.

We believe that we can increase our advertising rates only if the reach of our publications increases. We do not know if we will be able to increase the reach of our publications. If we are able to increase the reach of our publications, we still may not be able to or want to increase rates given market conditions such as intense competition in our industry. We have not had any significant rate increase in recent years due to intense competition in our industry. Even if we increase our rates, the increased price may reduce the amount of advertisers willing to advertise with us and, therefore, decrease our revenue. We may need to decrease our rates based on competitive market conditions and the performance of our audience in order to maintain or grow our revenue.

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

We do not know what our sales and marketing expenses as a percentage of revenue will be in future periods. Increased competition in our industry may require us to increase advertising for our brand and for our products. In order to increase the reach of our publications, we have to acquire a significant number of new members in every quarter and continue to promote our brand. One significant factor that impacts our advertising expenses is the average cost per acquisition of a new member.

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

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

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

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

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

We believe that we can sell more advertising if the market for online advertising continues to grow and if we can maintain or increase our market share. We believe that the market for advertising continues to shift from offline to online. We do not know if we will be able to maintain or increase our market share. We do not know if we will be able to increase the number of our advertisers in the future. We do not know if we will have market acceptance of our new products or whether the market will continue to accept our existing products.

**Results of Operations**

The following table sets forth, as a percentage of total revenues, the results from our operations for the periods indicated.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Revenues | 100.0% | 100.0% | 100.0% |
| Cost of revenues | 12.1 | 12.1 | 14.6 |
| Gross profit | 87.9 | 87.9 | 85.4 |
| Operating expenses: | | | |
| Sales and marketing | 53.8 | 51.1 | 52.9 |
| Product development | 8.6 | 8.0 | 9.9 |
| General and administrative | 21.2 | 19.9 | 19.5 |
| Total operating expenses | 83.6 | 79.0 | 82.3 |
| Income from continuing operations | 4.3 | 8.9 | 3.1 |
| Other income (loss), net | 0.1 | (0.1) | (1.0) |
| Income from continuing operations before income taxes | 4.4 | 8.8 | 2.1 |
| Income tax expense (benefit) | 2.9 | 3.5 | (4.8) |
| Income from continuing operations | 1.5 | 5.3 | 6.9 |
| Income from discontinued operations, net of income taxes | 1.8 | 0.5 | 1.9 |
| Net income | 3.3% | 5.8% | 8.8% |

## Operating Metrics

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **Asia Pacific** | | | |
| Total members | 3,621,600 | 3,598,000 | 3,484,000 |
| Average cost per acquisition of a new member | $ 3.08 | $ 3.28 | $ 2.46 |
| Revenue per member (2) | $ 2.09 | $ 2.78 | $ 3.01 |
| Revenue per employee (3) | $ 86 | $ 108 | $ 113 |
| Mobile application downloads | 728,300 | 662,000 | 563,000 |
| Social media followers | 559,000 | 531,000 | 383,000 |
| **Europe** | | | |
| Total members | 8,523,300 | 8,153,000 | 7,860,000 |
| Average cost per acquisition of a new member | $ 2.89 | $ 2.85 | $ 3.43 |
| Revenue per member (2) | $ 4.13 | $ 4.69 | $ 5.41 |
| Revenue per employee (3) | $ 222 | $ 249 | $ 277 |
| Mobile application downloads | 1,738,481 | 1,595,000 | 1,419,000 |
| Social media followers | 791,000 | 637,000 | 595,000 |
| **North America** | | | |
| Total members | 17,375,600 | 17,223,000 | 17,184,000 |
| Average cost per acquisition of a new member | $ 1.87 | $ 2.15 | $ 2.16 |
| Revenue per member (2) | $ 3.79 | $ 3.94 | $ 4.35 |
| Revenue per employee (3) | $ 322 | $ 332 | $ 314 |
| Mobile application downloads | 3,015,700 | 3,049,000 | 2,734,000 |
| Social media followers | 2,866,000 | 2,507,000 | 2,250,000 |
| **Consolidated** | | | |
| Total members (1) | 29,388,200 | 28,838,000 | 28,390,000 |
| Average cost per acquisition of a new member | $ 2.34 | $ 2.51 | $ 2.62 |
| Revenue per member (2) | $ 3.69 | $ 4.02 | $ 4.48 |
| Revenue per employee (3) | $ 241 | $ 258 | $ 266 |
| Mobile application downloads | 5,482,481 | 5,306,000 | 4,716,000 |
| Social media followers | 4,216,000 | 3,675,000 | 3,228,000 |

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

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

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

### Revenues

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Asia Pacific | | | |
| Travel | $ 6,992 | $ 8,845 | $ 9,355 |
| Local | 527 | 853 | 1,294 |
| Total Asia Pacific revenues | $ 7,519 | $ 9,698 | $ 10,649 |
| Europe | | | |
| Travel | $ 29,180 | $ 31,087 | $ 33,603 |
| Local | 4,501 | 5,820 | 6,133 |
| Total Europe revenues | $ 33,681 | $ 36,907 | $ 39,736 |
| North America | | | |
| Travel | $ 53,880 | $ 54,248 | $ 56,156 |
| Local | 11,444 | 13,410 | 17,420 |
| Total North America revenues | $ 65,324 | $ 67,658 | $ 73,576 |
| Consolidated | | | |
| Travel | $ 90,052 | $ 94,180 | $ 99,114 |
| Local | 16,472 | 20,083 | 24,847 |
| Total revenues | $ 106,524 | $ 114,263 | $ 123,961 |

*Asia Pacific*

Asia Pacific revenues decreased $2.2 million or 22% in 2017 compared to 2016. This decrease was primarily due to the decrease in Travel revenues, the decrease in Local revenues and a $341,000 negative impact from foreign currency movements relative to the U.S. dollar. The decrease in Travel revenues of $1.5 million was primarily due to the decreased number of e-mails sent. The decrease in Local revenues of $301,000 was primarily due to the decreased number of *Local Deals* vouchers sold.

Asia Pacific revenues decreased $951,000 or 9% in 2016 compared to 2015. This decrease was primarily due to the decrease in Travel revenues and the decrease in Local revenues offset partially by a $207,000 positive impact from foreign currency movements relative to the U.S. dollar. The decrease in Travel revenues of $718,000 was primarily due to the decreased number of e-mails sent. The decrease in Local revenues of $441,000 was primarily due to the decreased number of *Local Deals* vouchers sold.

*Europe*

Europe revenues decreased $3.2 million or 9% in 2017 compared to 2016. This decrease was primarily due to the decrease in Travel revenues, the decrease in Local revenues and a $766,000 negative impact from foreign currency movements relative to the U.S. dollar. The decrease in Travel revenue of $1.3 million was primarily due to the decrease in the average take rate earned from travel publications and the decrease in vouchers sold in getaway voucher revenues. The decrease in Local revenues of $1.2 million was primarily due to the decreased number of *Local Deals* vouchers sold.

Europe revenues decreased $2.8 million or 7% in 2016 compared to 2015. This decrease was primarily due to the $2.8 million negative impact from foreign currency movements relative to the U.S. dollar and the decrease in Travel revenues, offset partially by the increase in Local revenues. The decrease in Travel revenue of $360,000 was primarily due to the decreased number of emails sent and paid clicks. The increase in Local revenues of $312,000 was primarily due to the increased number of *Local Deals* vouchers sold.

*North America*

North America revenues decreased $2.3 million or 3% in 2017 compared to 2016. This decrease was primarily due to the decrease in Local and Travel revenues. The decrease in Local revenues of $2.0 million was primarily due to the decreased number of *Local Deals* vouchers sold. The decrease in Travel revenue of $371,000 was primarily due to the decreased number of *Getaway* vouchers sold, offset partially by the increased travel publications revenues.

North America revenues decreased $5.9 million or 8% in 2016 compared to 2015. The decrease in Travel revenues of $1.8 million was primarily due to the decreased number of emails sent. The decrease in Local revenues of $4.0 million was primarily due to the decreased number of *Local Deals* vouchers sold.

For 2017, 2016 and 2015, none of our customers accounted for 10% or more of our revenue.

***Cost of Revenues***

Cost of revenues consists primarily of network expenses, including fees we pay for co-location services and depreciation and maintenance of network equipment, payments made to third-party partners of the Travelzoo Network, amortization of capitalized website development costs, credit card fees, certain estimated refunds to members and customer service costs associated with vouchers we sell and hotel bookings, and salary expenses associated with network operations and customer service staff. Cost of revenues was $12.9 million, $13.9 million and $18.1 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Cost of revenue decreased $946,000 in 2017 compared to 2016. This decrease was primarily due to a $837,000 decrease in payments made to third-party partners of the Travelzoo Network.

Cost of revenue decreased $4.3 million in 2016 compared to 2015. This decrease was primarily due to a $2.9 million decrease in payments made to third-party partners of the Travelzoo Network, a $771,000 decrease in *Local Deals and Getaway* costs and a $585,000 decrease in employee compensation and benefits.

***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 $57.3 million, $58.4 million and $65.6 million for 2017, 2016 and 2015, respectively. Advertising expenses accounted for 15%, 18% and 21%, 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 $1.1 million in 2017 compared to 2016. The decrease was primarily due to a $1.2 million decrease in member acquisition costs and a $0.4 million decrease in salary and employee related expenses, offset partially by a $0.3 million increase in facility costs and $0.3 million increase in marketing costs.

Sales and marketing expenses decreased $7.2 million in 2016 compared to 2015. The decrease was primarily due to a $4.0 million decrease in salary and employee related expenses due in part to a decrease in headcount, a $1.9 million decrease in trade and brand marketing expenses, $0.7 million decrease in member acquisition costs and a $0.4 million decrease in professional service expenses.

*Product Development*

Product development expenses consist primarily of compensation for software development staff, fees for professional services, software maintenance and amortization and facilities costs. Product development expenses were $9.2 million, $9.1 million and $12.2 million for 2017, 2016 and 2015, respectively.

Product development expenses increased $128,000 in 2017 compared to 2016. The increase was primarily due to an increase in professional services related in part to our continuous enhancement to our website.

Product development expenses decreased $3.1 million in 2016 compared to 2015. The decrease was primarily due to a $1.5 million decrease in salary and employee related expenses, a $1.0 million decrease in professional service expenses and a $0.3 million decrease in contractor expenses.

*General and Administrative*

General and administrative expenses consist primarily of compensation for administrative, executive, fees for professional services, rent, bad debt expense, amortization of intangible assets, and general office expense. General and administrative expenses were $22.6 million, $22.7 million and $24.2 million for 2017, 2016 and 2015, respectively.

General and administrative expenses decreased $139,000 in 2017 compared to 2016. The decrease was primarily due to a $548,000 decrease in professional services expenses related to various outside services, offset partially by a $435,000 increase in salary and employee related expenses.

General and administrative expenses decreased $1.5 million in 2016 compared to 2015. The decrease was primarily due to a $2.2 million decrease in salary and employee related expenses due in part to a decrease in headcount, offset partially by a $0.5 million increase in professional services expenses.

***Other Income (loss)***

Other income (loss) consisted primarily of foreign exchange transactions gains and losses, interest income earned on cash, cash equivalents and restricted cash as well as interest expense. Other income (loss) was $173,000, $(187,000) and $(1.2) million for 2017, 2016 and 2015, respectively. Other income (loss) increased $360,000 from 2016 to 2017 primarily due to foreign exchange transaction gains in 2017. Other income (loss) decreased $1.1 million from 2015 to 2016 primarily due to foreign exchange transaction losses in 2015.

***Income Taxes***

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act includes significant changes to the U.S. corporate income tax system including: a federal corporate rate reduction from 35% to 21%; limitations on the deductibility of interest expense and executive compensation; creation of new minimum taxes such as the base erosion anti-abuse tax ("BEAT") and Global Intangible Low Taxed Income ("GILTI") tax; and the transition of U.S. international taxation from a worldwide tax system to a modified territorial tax system, which will result in a one time U.S. tax liability on those earnings which have not previously been repatriated to the U.S. (the "Transition Tax").

In connection with the Company's initial analysis of the impact of the Tax Act, the Company has recorded a provisional estimate of discrete net tax expense of $508,000 for the period ended December 31, 2017. This discrete expense consists of provisional estimates of zero net expense for the Transition Tax, $173,000 net benefit for the decrease in the Company's deferred tax liability on unremitted foreign earnings, and $681,000 net expense for remeasurement of the Company's deferred tax assets/liabilities for the corporate rate reduction.

We have not completed our accounting for the income tax effects of certain elements of the Tax Act, including the new GILTI and BEAT taxes. Due to the complexity of these new tax rules, we are continuing to evaluate these provisions of the Tax Act and whether such taxes are recorded as a current-period expense when incurred or whether such amounts should be factored into a company's measurement of its deferred taxes. As a result, we have not included an estimate of the tax expense/ benefit related to these items for the period ended December 31, 2017.

Our income is generally taxed in the U.S., Canada and U.K. Our income tax provision reflects federal, state and country statutory rates applicable to our worldwide income, adjusted to take into account expenses that are treated as having no recognizable tax benefit. Income tax expense (benefit) was $3.1 million, $4.0 million and $(5.9) million for 2017, 2016 and 2015, respectively. Our effective tax rate was 66%, 40% and (231)% for 2017, 2016 and 2015, respectively.

Our effective tax rate increased for the year ended December 31,2017 compared to the year ended December 31, 2016, primarily due to unfavorable change in our geographic mix of our worldwide taxable income including foreign net operating losses from Asia Pacific that are not benefited. In addition, the effective tax rate decreased by $907,000 due primarily to the recognition of certain previously unrecognized tax benefits related to uncertain tax positions as a result of the settlement of certain tax examinations offset by the provisional estimated net tax expense of $508,000 resulting from our initial analysis of the impact of the U.S. tax reform passed in December 2017. Our effective tax rate increased for the year ended December 31, 2016 compared to the year ended December 31, 2015, primarily due to the recognition of an $8.4 million tax benefit related to the unexchanged promotional shares after a lapse of certain statute of limitations in 2015. 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, income or losses incurred by our operations in Asia Pacific, Canada and Europe, statutory tax rate changes that may occur and the need for valuation allowances on certain tax assets, if any. See Note 5 to the accompanying consolidated financial statements for more information on our effective tax rate.

***Segment Information***

***Asia Pacific***

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | | (In thousands) | |
| Revenues | $ 7,519 | $ 9,698 | $ 10,649 |
| (Loss) from operations | $ (5,967) | $ (3,890) | $ (2,469) |
| (Loss) from operations as a % of revenues | (79)% | (40)% | (23)% |

Asia Pacific net revenues decreased $2.2 million in 2017 compared to 2016 (see "Revenues" above). Asia Pacific expenses decreased $102,000 from 2016 to 2017. This decrease was primarily due to a $470,000 decrease in member acquisition costs, offset partially by a $188,000 increase of salary expense and a $130,000 increase in rent expense.

Asia Pacific net revenues decreased $951,000 in 2016 compared to 2015 (see "Revenues" above). Asia Pacific expenses increased $470,000 from 2015 to 2016. This increase was primarily due to a $666,000 increase in member acquisition costs, a $251,000 increase in trade and brand marketing expenses, offset partially by a $620,000 decrease of salary and employee related expense due primarily to a decrease in headcount.

Foreign currency movements relative to the U.S. dollar positively impacted our local currency loss from our operations in Asia Pacific by approximately $35,000 for fiscal years 2017. Foreign currency movements relative to the U.S. dollar negatively impacted our local currency loss from our operations in Asia Pacific by approximately $191,000 and $16,000 for fiscal years 2016 and 2015, respectively.

***Europe***

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | | (In thousands) | |
| Revenues | $ 33,681 | $ 36,907 | $ 39,736 |
| Income from operations | $ 2,290 | $ 5,604 | $ 2,472 |
| Income from operations as a % of revenues | 7% | 15% | 6% |

Europe net revenues decreased $3.2 million in 2017 compared to 2016 (see "Revenues" above). Europe expenses increased $88,000 from 2016 to 2017. The increase was primarily due to a $176,000 increase in customer retention costs, a $173,000 increase in trade and brand marketing expenses, a $136,000 increase in office and facility expenses and a $130,000 increase in professional services expenses, offset partially by a $496,000 decrease in salary and employee related expenses.

Europe net revenues decreased $2.8 million in 2016 compared to 2015 (see "Revenues" above). Europe expenses decreased $6.0 million from 2015 to 2016. The decrease was primarily due to a $1.8 million decrease in salary and employee related expenses, a $1.5 million decrease in trade and brand marketing expenses, a $1.0 million decrease in member acquisition costs.

Foreign currency movements relative to the U.S. dollar negatively impacted our local currency income from our operations in Europe by approximately $116,000, $633,000 and $101,000 for 2017, 2016 and 2015, respectively.

***North America***

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | | (In thousands) | |
| Revenues | $ 65,324 | $ 67,658 | $ 73,576 |
| Income from operations | $ 8,222 | $ 8,472 | $ 3,817 |
| Income from operations as a % of revenues | 13% | 13% | 5% |

North America net revenues decreased $2.3 million in 2017 compared to 2016 (see "Revenues" above). North America expenses decreased $2.1 million from 2016 to 2017. This decrease was primarily due to a $1.0 million decrease in professional services expenses, a $0.8 million decrease in member acquisition costs and a $0.6 million decrease in payments made to third-party partners of the Travelzoo Network, offset partially by a $0.5 million increase in customer refund in *Local Deals* and *Getaway* products.

North America net revenues decreased $5.9 million in 2016 compared to 2015 (see "Revenues" above). North America expenses decreased $10.6 million from 2015 to 2016. This decrease was primarily due to a $6.3 million decrease in salary and employee related expense due in part to a decrease in headcount, a $2.8 million decrease in payments made to third-party partners of the Travelzoo Network and a $0.9 million decrease in member acquisition costs.

***Liquidity and Capital Resources***

As of December 31, 2017, we had $22.6 million in cash and cash equivalents, of which $16.4 million was held outside the U.S. in certain of our foreign operations. If these assets are distributed to the U.S., we may be subject to additional U.S. taxes in certain circumstances. Cash and cash equivalents decreased from $26.8 million as of December 31, 2016 primarily as a result of cash used for repurchases of our common stock. We expect that cash on hand will be sufficient to provide for working capital needs for at least the next twelve months.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | | ( In thousands) | |
| Net cash provided by operating activities | $ 2,076 | $ 8,722 | $ 4,192 |
| Net cash provided by (used in) investing activities | 2,152 | (909) | (1,218) |
| Net cash used in financing activities | (9,712) | (15,262) | (20,012) |
| Effect of exchange rate changes on cash and cash equivalents | 1,199 | (841) | (3,251) |
| Net decrease in cash and cash equivalents | $ (4,285) | $ (8,290) | $ (20,289) |

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 $2.1 million for 2017, which consisted of a net income of $3.5 million, adjustments for non-cash items of $265,000, offset partially a $1.7 million decrease in cash from changes in operating assets and liabilities. Adjustments for non-cash items primarily consisted of the $2.9 million discontinued operations gain on the sale of the Fly.com domain name, offset by $2.1 million of depreciation and amortization expense on property and equipment and $1.0 million of stock-based compensation expense. The decrease in cash from changes in operating assets and liabilities primarily consisted of $2.5 million decrease in other non-current liabilities primarily associated with the resolution of 2009 IRS audit related to the sale of our Asia Pacific business segment and $1.6 million decrease in accounts payable, offset partially by $3.1 million decrease in accounts receivable.

Net cash provided by operating activities was $8.7 million for 2016, which consisted of a net income of $6.6 million, adjustments for non-cash items of $3.0 million and a $958,000 decrease in cash from changes in operating assets and liabilities. Adjustments for non-cash items primarily consisted of $2.5 million of depreciation and amortization expense on property and equipment and $933,000 of stock-based compensation expense. The decrease in cash from changes in operating assets and liabilities primarily consisted of $2.5 million decrease in accounts payable offset partially by $1.3 million decrease in accounts receivable.

Net cash provided by operating activities was $4.2 million for 2015, which consisted of a net income of $10.9 million, adjustments for non-cash items of $3.4 million and a $10.1 million decrease in cash from changes in operating assets and liabilities. Adjustments for non-cash items primarily consisted of $2.8 million of depreciation and amortization expense on property and equipment and $401,000 of stock-based compensation expense. In addition, the decrease in cash from changes in operating assets and liabilities primarily consisted of $7.9 million in other non-current liabilities, $1.4 million in accrued expenses for unexchanged promotional shares, $2.8 million in accounts payable and accrued expenses offset by $2.4 million in income tax receivable.

Cash paid for income tax net of refunds received in 2017, 2016 and 2015 was $6.2 million, $3.3 million and $801,000, respectively.

Net cash provided by investing activities for 2017 was $2.2 million. Net cash used in investing activities for 2016 and 2015 was $909,000 and $1.2 million, respectively. The cash provided by investing activities in 2017 was primarily due to $2.9 million proceeds from sale the Fly.com domain name, offset partially by $738,000 in purchases of property and equipment. The cash used in investing activities in 2016 was due primarily to $909,000 in purchases of property and equipment. The cash used in investing activities in 2015 was due primarily to $1.3 million in purchases of property and equipment offset by $64,000 release of restricted cash.

Net cash used in financing activities for 2017, 2016 and 2015 was $9.7 million, $15.3 million and $20.0 million, respectively. Net cash used in financing activities for the year ended December 31, 2017 was primarily due to $9.7 million cash used in repurchases of our common stock. Net cash used in financing activities for the year ended December 31, 2016 was primarily due to $5.7 million payment of related party loan and $9.7 million cash used in repurchases of our common stock. Net cash used in financing activities for the year ended December 31, 2015 was primarily due to cash used in acquiring the Travelzoo Asia Pacific business and repurchases of our common stock.

See Note 4 to the accompanying consolidated financial statements for information on the unexchanged promotional share settlements and related cash program.

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

Our capital requirements depend on a number of factors, including market acceptance of our products and services, the amount of our resources we devote to the development of new products, cash payments related to former stockholders of Travelzoo.com Corporation, expansion of our operations, and the amount of resources we devote to promoting awareness of our *Travelzoo* 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 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 4 — 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, 2017 (in thousands):

| | 2018 | 2019 | 2020 | 2021 | 2022 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Operating leases | $ 5,320 | $ 4,505 | $ 3,833 | $ 3,205 | $ 2,370 | $ 3,258 | $ 22,491 |
| Purchase obligations | 1,446 | 17 | 11 | — | — | — | 1,474 |
| Total commitments | $ 6,766 | $ 4,522 | $ 3,844 | $ 3,205 | $ 2,370 | $ 3,258 | $ 23,965 |

We also have contingencies related to net unrecognized tax benefits, including interest, of approximately $1.2 million as of December 31, 2017. See Note 5 to the accompanying consolidated financial statements for further information.

***Critical Accounting Policies and Estimates***

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

*Revenue Recognition*

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

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

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

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

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

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

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

*Allowance for Doubtful Accounts*

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

*Income Taxes*

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the progress or closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest. In addition to local country tax laws and regulations, our income tax rate depends on the extent that our foreign earnings are taxed by the U.S. through new provisions under the Tax Act such as the new GILTI tax and BEAT or as a result of our indefinite reinvestment assertion. Indefinite reinvestment is determined by management's judgment about and intentions concerning our future operations.

Our effective tax rates have differed from the statutory rate primarily due to the tax impact of foreign operations, state taxes, certain benefits realized related to stock option activities, credits, 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, 2017, 2016 and 2015, our effective tax rates were 66%, 40% and (231)%, respectively. Our future effective tax rates could be materially impacted by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, changes in the deferred tax assets or liabilities, existing or new uncertain tax matters that may arise and require changes in tax reserves, changes in tax asset valuation allowance determinations, changes in our judgment about whether certain foreign earnings are indefinitely reinvested outside the U.S., or changes in tax laws, regulations, and accounting principles. In addition, we are subject to the continuous examination of our income tax returns by the IRS and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. See Note 5 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. Please refer to Note 4 to the accompanying consolidated financial statements for further information regarding our loss contingencies.

*Recent Accounting Pronouncements*

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

**Item 7A. *Quantitative and Qualitative Disclosures About Market Risk***

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

Our operations in Canada expose us to foreign currency risk associated with agreements being denominated in Canadian Dollars. Our operations in Europe expose us to foreign currency risk associated with agreements being denominated in British Pound Sterling and Euros. Our operations in Asia Pacific expose us to foreign currency risk associated with agreements being denominated in Australian dollars, Chinese Yuan, Hong Kong dollar, Japanese Yen and Taiwanese Yuan. We are exposed to foreign currency risk associated with fluctuations of these currencies as the financial position and operating results of our operations in Asia Pacific, Canada and Europe are translated into U.S. dollars for consolidation purposes. We do not use derivative instruments to hedge these exposures. We have performed a sensitivity analysis as of December 31, 2017, using a modeling technique that measures the change in the fair values arising from a hypothetical 10% adverse movement in the levels of foreign currency exchange rates relative to the U.S. dollar with all other variables held constant. The foreign currency exchange rates we used were based on market rates in effect at December 31, 2017. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in an incremental $185,000 foreign exchange loss for the year ended December 31, 2017.

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

**TRAVELZOO**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Travelzoo

### *Opinions on the Financial Statements and Internal Control over Financial Reporting*

We have audited the accompanying consolidated balance sheets of Travelzoo and its subsidiaries as of December 31, 2017 and December 31, 2016, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2017, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and December 31, 2016, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### *Change in Accounting Principle*

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for certain elements of its deferred income taxes in 2017.

### *Basis for Opinions*

The Company'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 Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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.

***Definition and Limitations of Internal Control over Financial Reporting***

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (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 the company are being made only in accordance with authorizations of management and directors of the company; and (iii) 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.

/s/ PricewaterhouseCoopers LLP

San Jose, California
March 15, 2018

We have served as the Company's auditor since 2016.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Travelzoo:

We have audited the accompanying consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows of Travelzoo and subsidiaries (Travelzoo) for the year ended December 31, 2015. These consolidated financial statements are the responsibility of Travelzoo's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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. Our audit 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. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Travelzoo for the year ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Santa Clara, California
March 11, 2016, except for Note 11, as to which the date is March 15, 2018

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

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 22,553 | $ 26,838 |
| Accounts receivable, less allowance for doubtful accounts of $315 and $295 as of December 31, 2017 and 2016, respectively | 11,769 | 14,415 |
| Income tax receivable | 517 | 542 |
| Deferred tax assets | — | 793 |
| Deposits | 259 | 105 |
| Prepaid expenses and other | 2,141 | 1,773 |
| Total current assets | 37,239 | 44,466 |
| Deposits and other | 548 | 702 |
| Deferred tax assets | 1,516 | 1,052 |
| Restricted cash | 1,448 | 1,152 |
| Property and equipment, net | 4,921 | 6,158 |
| Total assets | $ 45,672 | $ 53,530 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 19,105 | $ 19,714 |
| Accrued expenses and other | 8,702 | 8,699 |
| Deferred revenue | 825 | 719 |
| Income tax payable | 961 | 691 |
| Total current liabilities | 29,593 | 29,823 |
| Long-term tax liabilities | 373 | 2,879 |
| Long-term deferred rent and other | 2,628 | 2,764 |
| 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; 12,462 shares issued and outstanding as of December 31, 2017 and 13,462 shares issued and outstanding as of December 31, 2016) | 125 | 135 |
| Additional paid-in capital | — | — |
| Retained earnings | 16,550 | 21,716 |
| Accumulated other comprehensive loss | (3,597) | (3,787) |
| Total stockholders' equity | 13,078 | 18,064 |
| Total liabilities and stockholders' equity | $ 45,672 | $ 53,530 |

See accompanying notes to consolidated financial statements.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Revenues | $ 106,524 | $ 114,263 | $ 123,961 |
| Cost of revenues | 12,909 | 13,855 | 18,148 |
| Gross profit | 93,615 | 100,408 | 105,813 |
| Operating expenses: | | | |
| Sales and marketing | 57,288 | 58,429 | 65,609 |
| Product development | 9,224 | 9,096 | 12,214 |
| General and administrative | 22,558 | 22,697 | 24,170 |
| Total operating expenses | 89,070 | 90,222 | 101,993 |
| Income from continuing operations | 4,545 | 10,186 | 3,820 |
| Other income (loss), net | 173 | (187) | (1,242) |
| Income from continuing operations before income taxes | 4,718 | 9,999 | 2,578 |
| Income tax expense (benefit) | 3,126 | 3,992 | (5,945) |
| Income from continuing operations | $ 1,592 | $ 6,007 | $ 8,523 |
| Income from discontinued operations, net of income taxes | 1,938 | 624 | 2,341 |
| Net income | $ 3,530 | $ 6,631 | $ 10,864 |
| | | | |
| Income per share—basic: | | | |
| Continuing operations | $ 0.12 | $ 0.43 | $ 0.58 |
| Discontinued operations | 0.15 | 0.04 | 0.16 |
| Net income per share—basic | $ 0.27 | $ 0.47 | $ 0.74 |
| | | | |
| Income per share—diluted: | | | |
| Continuing operations | $ 0.12 | $ 0.43 | $ 0.58 |
| Discontinued operations | 0.15 | 0.04 | 0.16 |
| Net income per share—diluted | $ 0.27 | $ 0.47 | $ 0.74 |
| | | | |
| Shares used in computing basic net income per share | 12,882 | 13,997 | 14,722 |
| Shares used in computing diluted net income per share | 12,894 | 13,997 | 14,722 |

See accompanying notes to consolidated financial statements.

**TRAVELZOO**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**(In thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Net income | $ 3,530 | $ 6,631 | $ 10,864 |
| Other comprehensive income (loss): | | | |
| Foreign currency translation adjustment | 190 | 121 | (1,306) |
| Total comprehensive income | $ 3,720 | $ 6,752 | $ 9,558 |

See accompanying notes to consolidated financial statements.

## TRAVELZOO

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
### (In thousands)

| | Common Stock | | | | | | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Treasury Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Stockholders' Equity |
| Balances, January 1, 2015 | 14,730 | $ 163 | $ (21,517) | $ 30,586 | $ 29,197 | $ (2,602) | $ 35,827 |
| Stock-based compensation expense | — | — | — | 401 | — | — | 401 |
| Retirement of treasury stock | — | (13) | 23,241 | (23,228) | — | — | — |
| Repurchase and retirement of common stock, net | (212) | — | (1,724) | — | — | — | (1,724) |
| Proceeds from sale of shares fractionalized from reverse/forward stock split, including transaction costs | — | — | — | — | (102) | — | (102) |
| Acquisition of Asia Pacific Business | — | — | — | — | (22,573) | — | (22,573) |
| Foreign currency translation adjustment | — | — | — | — | — | (1,306) | (1,306) |
| Net income | — | — | — | — | 10,864 | — | 10,864 |
| Balances, December 31, 2015 | 14,518 | 150 | — | 7,759 | 17,386 | (3,908) | 21,387 |
| Stock-based compensation expense | — | — | — | 933 | — | — | 933 |
| Repurchase and retirement of common stock, net | (1,056) | (15) | — | (7,189) | (2,301) | — | (9,505) |
| Tax benefit shortfall from forfeiture/cancellation of stock options | — | — | — | (1,503) | — | — | (1,503) |
| Foreign currency translation adjustment | — | — | — | — | — | 121 | 121 |
| Net income | — | — | — | — | 6,631 | — | 6,631 |
| Balances, December 31, 2016 | 13,462 | 135 | — | — | 21,716 | (3,787) | 18,064 |
| Stock-based compensation expense | — | — | — | 1,006 | — | — | 1,006 |
| Repurchase and retirement of common stock, net | (1,000) | (10) | — | (1,006) | (8,696) | — | (9,712) |
| Foreign currency translation adjustment | — | — | — | — | — | 190 | 190 |
| Net income | — | — | — | — | 3,530 | — | 3,530 |
| Balances, December 31, 2017 | 12,462 | $ 125 | $ — | $ — | $ 16,550 | $ (3,597) | $ 13,078 |

See accompanying notes to consolidated financial statements.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **Cash flows from operating activities:** | | | |
| Net income | $ 3,530 | $ 6,631 | $ 10,864 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 2,075 | 2,530 | 2,788 |
| Discontinued operations gain on sale of Fly.com domain name | (2,890) | — | — |
| Stock-based compensation | 1,006 | 933 | 401 |
| Deferred income tax | 309 | (199) | (269) |
| Net foreign currency effect | (354) | (315) | 480 |
| Other | 118 | 100 | (20) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 3,065 | 1,313 | (789) |
| Income tax receivable | 28 | 816 | 2,371 |
| Prepaid expenses and other | (487) | 957 | 675 |
| Accounts payable | (1,588) | (2,463) | (1,139) |
| Reserve for unexchanged promotional shares | — | — | (1,393) |
| Accrued expenses and other | (475) | (1,747) | (1,681) |
| Income tax payable | 261 | 287 | (161) |
| Other non-current liabilities | (2,522) | (121) | (7,935) |
| Net cash provided by operating activities | 2,076 | 8,722 | 4,192 |
| **Cash flows from investing activities:** | | | |
| Purchases of property and equipment | (738) | (909) | (1,282) |
| Proceeds from sale of Fly.com domain name | 2,890 | — | — |
| Release of restricted cash | — | — | 64 |
| Net cash provided by (used in) investing activities | 2,152 | (909) | (1,218) |
| **Cash flows from financing activities:** | | | |
| Acquisition of the Asia Pacific business | — | 58 | (16,974) |
| Payment of loan to related party | — | (5,658) | (3,250) |
| Proceeds from loan from related party | — | — | 2,224 |
| Increase in bank overdraft | — | — | 44 |
| Decrease in bank overdraft | — | — | (385) |
| Repurchase of common stock | (9,712) | (9,662) | (1,569) |
| Reverse/forward stock split, including transaction costs | — | — | (102) |
| Net cash used in financing activities | (9,712) | (15,262) | (20,012) |
| Effect of exchange rate changes on cash and cash equivalents | 1,199 | (841) | (3,251) |
| Net decrease in cash and cash equivalents | (4,285) | (8,290) | (20,289) |
| Cash and cash equivalents at beginning of year | 26,838 | 35,128 | 55,417 |
| Cash and cash equivalents at end of year | $ 22,553 | $ 26,838 | $ 35,128 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for income taxes, net | $ 6,201 | $ 3,309 | $ 801 |
| Cash paid for interest | $ — | $ 88 | $ 128 |
| Note payable for the acquisition of the Asia Pacific business | $ — | $ — | $ 5,658 |

See accompanying notes to consolidated financial statements.

## Note 1: Summary of Significant Accounting Policies

### *(a) The Company and Basis of Presentation*

Travelzoo® provides our members insider deals and one-of-a-kind experiences personally reviewed by one of our deal experts around the globe. With more than 25 offices worldwide, we have our finger on the pulse of outstanding travel, entertainment, and lifestyle experiences. For over 15 years we have worked in partnership with top travel suppliers—our long-standing relationships give Travelzoo members access to the very best deals. Travelzoo's revenues are generated primarily from advertising fees.

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

Ralph Bartel, who founded Travelzoo (the "Company") and who is a Director of the Company is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro Capital Inc. ("Azzurro"). As of December 31, 2017, Azzurro is the Company's largest stockholder, holding approximately 57.8% of the Company's outstanding shares.

During the first quarter of 2017, the Company discontinued operations of its *SuperSearch* and *Fly.com* products to focus on its global Travelzoo® brand and reflected the revenues and expenses for these products as discontinued operations, net of taxes, for the current and prior periods presented. See "Note 11: Discontinued Operations" for further information.

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles (“GAAP”) in the United States (“U.S.”). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

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. Significant estimates included in the consolidated financial statements and related notes include revenue recognition, income taxes, stock-based compensation, loss contingencies, and useful lives of property, plant and equipment. Actual results could differ materially from those estimates.

### *(b) Revenue Recognition*

The Company’s revenue consists primarily of advertising sales. Advertising revenues are principally derived from the sale of advertising in Asia Pacific, Europe and North America on the *Travelzoo* website, in the *Travelzoo Top 20* e-mail newsletter, in *Newsflash*, and from the *Travelzoo Network*. 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's arrangements with its customers specifies the price paid for advertising services.
- *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. Costs incurred for our affiliate traffic from our *Travelzoo Network* are classified as cost of revenues in our consolidated statements of operations.

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

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

***(c) Reserve for Refunds to Members***

The Company records an estimated reserve for refunds to members based on our historical experience at the time revenue is recorded for *Local Deals* and *Getaway* voucher sales. We accrue costs associated with refunds in accrued expenses on the consolidated balance sheets. We consider many key factors such as the historical refunds based upon the time lag since the sale, historical reasons for refunds, time period that remains until the deal expiration date, any changes in refund procedures and estimates of redemptions and breakage. Should any of these factors change, the estimates made by management will also change, which could impact the level of our future reserve for refunds to member. 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 refunds to members 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***

The Company records a provision for doubtful accounts based on its 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, 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 the 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) 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 $8.6 million, $10.4 million and $13.7 million for years ended December 31, 2017, 2016 and 2015, respectively.

***(f) Operating Leases***

The Company leases facilities and equipment under various operating leases. These lease agreements generally include rent holidays rent escalation clauses and renewal periods at the Company's option. The Company recognizes expense for scheduled rent increases on a straight-line basis over the lease term beginning with the date it takes possession of the leased facilities and equipment. Leasehold improvements made either at the inception of the lease or during the lease term are amortized over the current lease term, or estimated life, if shorter.

***(g) 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. See Note 8 to the accompanying consolidated financial statements for a further discussion on stock-based compensation.

***(h) 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. Total foreign currency transaction net gain of $158,000 for 2017 and total foreign currency transaction net losses of $211,000 and $1.1 million for 2016 and 2015, respectively, are included in Other income (loss), net in the Company’s consolidated statements of operations.

***(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.

Significant judgment is required in evaluating the Company's uncertain tax positions and determining the Company's provision for income taxes. Although the Company believes it has adequately reserved for its uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. The Company adjusts these reserves in light of changing facts and circumstances, such as the progress or closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest.

***(j) Comprehensive Income (Loss)***

Comprehensive income (loss) consists of two components, net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to certain changes in equity that are excluded from net income (loss). For the Company, other comprehensive income (loss) includes foreign currency translation adjustments. Total comprehensive income (loss) for all periods presented has been disclosed in the consolidated statements of comprehensive loss.

***(k) 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, 2017, the Company did not have any customers that accounted for 10% or more of accounts receivable. As of December 31, 2016, the Company had one customer that accounted for 16% of accounts receivable.

***(l) Cash and Cash Equivalents***

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

***(m) 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.

***(n) Impairment of Long-Lived Assets***

The Company accounts for long-lived assets in accordance with the accounting standard relating to impairment of long-lived assets, which requires an impairment loss to be recognized on assets to be held and used if the carrying amount of a long-lived asset group is not recoverable from its undiscounted cash flows. The amount of the impairment loss is measured as the difference between the carrying amount and the fair value of the asset group. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. No impairment loss was recognized during years ended December 31, 2017, 2016 and 2015.

***(o) Recently Adopted Accounting Pronouncements***

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

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

***(p) Recent Accounting Pronouncements Not Yet Adopted***

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

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

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

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

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

**Note 2: Net Income Per Share**

Basic net income per share is computed using the weighted-average number of common shares outstanding for the period. Diluted net income per share is computed by adjusting the weighted-average number of common shares outstanding for the effect of dilutive potential common shares outstanding during the period. Potential common shares included in the diluted calculation consist of incremental shares issuable upon the exercise of outstanding stock options calculated using the treasury stock method.

The following table sets forth the calculation of basic and diluted net income per share (in thousands, except per share amounts):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Numerator: | | | |
| Income from continuing operations | $ 1,592 | $ 6,007 | $ 8,523 |
| Income from discontinued operations, net of income taxes | 1,938 | 624 | 2,341 |
| Net income | $ 3,530 | $ 6,631 | $ 10,864 |
| Denominator: | | | |
| Weighted average common shares—basic | 12,882 | 13,997 | 14,722 |
| Effect of dilutive securities: stock options | 12 | — | — |
| Weighted average common shares—diluted | 12,894 | 13,997 | 14,722 |
| Income per share—basic: | | | |
| Continuing operations | $ 0.12 | $ 0.43 | $ 0.58 |
| Discontinued operations | 0.15 | 0.04 | 0.16 |
| Net income per share—basic | $ 0.27 | $ 0.47 | $ 0.74 |
| Income per share—diluted: | | | |
| Continuing operations | $ 0.12 | $ 0.43 | $ 0.58 |
| Discontinued operations | 0.15 | 0.04 | 0.16 |
| Net income per share—diluted | $ 0.27 | $ 0.47 | $ 0.74 |

For the years ended December 31, 2017, 2016 and 2015, options to purchase 550,000, 600,000 and 775,000 shares of common stock, respectively, were not included in the computation of diluted net income per share because the effect would have been anti-dilutive.

**Note 3: Balance Sheet Components**

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

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Prepaid expenses | $ 1,859 | $ 1,334 |
| Other current assets | 282 | 439 |
| Total prepaid expenses and other | $ 2,141 | $ 1,773 |

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

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Computer hardware and software | $ 3,337 | $ 4,969 |
| Office equipment and office furniture | 8,002 | 8,802 |
| Capitalized internal-use software and website development | 4,383 | 3,265 |
| Leasehold improvements | 6,629 | 6,259 |
| | 22,351 | 23,295 |
| Less accumulated depreciation and amortization | (17,430) | (17,137) |
| Total | $ 4,921 | $ 6,158 |

Depreciation expense was $1.8 million, $2.1 million, and $2.2 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Amortization of capitalized internal-use software and website development costs was $321,000, $460,000 and $308,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

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

| | Allowance for doubtful accounts | Reserve for member refunds |
|---|---|---|
| Balance at January 1, 2015 | $ 444 | $ 799 |
| Additions — charged to costs and expenses, or contra revenue, net | 295 | 776 |
| Deductions — recoveries of amounts previously charged-off | (179) | — |
| Deductions — write-offs | (176) | (1,045) |
| Balance at December 31, 2015 | 384 | 530 |
| Additions — charged to costs and expenses, or contra revenue, net | 107 | 507 |
| Deductions — recoveries of amounts previously charged-off | (89) | — |
| Deductions — write-offs | (107) | (563) |
| Balance at December 31, 2016 | 295 | 474 |
| Additions — charged to costs and expenses, or contra revenue, net | 158 | 942 |
| Deductions — recoveries of amounts previously charged-off | (125) | — |
| Deductions — write-offs | (13) | (886) |
| Balance at December 31, 2017 | $ 315 | $ 530 |

*Local Deals* and *Getaway* merchant payable included in accounts payable was $14.6 million and $14.8 million, as of December 31, 2017 and 2016, respectively.

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

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Accrued advertising expense | $ 1,727 | $ 1,828 |
| Accrued compensation expense | 3,540 | 3,288 |
| Reserve for member refunds | 539 | 474 |
| Other accrued expenses | 2,396 | 2,678 |
| Deferred rent | 500 | 431 |
| Total accrued expenses and other | $ 8,702 | $ 8,699 |

At December 31, 2017 and 2016, accounts receivable, accounts payable and accrued expenses 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.

**Note 4: Commitments and Contingencies**

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

During 2010 through 2014, the Company became subject to unclaimed property audits of various states in the United States related to the above unexchanged promotional shares and completed settlements with all states. Although the Company has settled the unclaimed property claims with all states, the Company may still receive inquiries from certain potential Netsurfer promotional stockholders that had not provided their state of residence to the Company by April 25, 2004. Therefore, the Company is continuing its voluntary program under which it makes cash payments to individuals related to the promotional shares for individuals whose residence was unknown by the Company and who establish that they satisfy the original conditions required for them to receive shares of Travelzoo.com Corporation, and who failed to submit requests to convert their shares into shares of Travelzoo within the required time period. This voluntary program is not available for individuals whose promotional shares have been escheated to a state by the Company, except those individuals for which their residence was unknown to the Company. The accompanying consolidated financial statements include charges in general and administrative expenses of $1,000, $2,000 and $1,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

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

The Company leases office space in Australia, Canada, China, France, Germany, Hong Kong, Japan, Singapore, Spain, Taiwan, the U.K., and the U.S. under operating leases which expire between March 2018 and November 2024. Rent expense was $5.8 million, $5.3 million and $5.8 million for years ended December 31, 2017, 2016 and 2015, respectively. Some of these lease agreements have free or escalating rent payment provisions. We recognize rent expense under such arrangements on a straight line basis.

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

The Company has purchase commitments which represent the minimum obligations the Company has under agreements with certain suppliers. These minimum obligations are less than the Company's projected use for those periods. Payments may be more than the minimum obligations based on actual use.

The following table summarizes the Company's principal contractual commitments as of December 31, 2017 (in thousands):

| | 2018 | 2019 | 2020 | 2021 | 2022 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Operating leases | $ 5,320 | $ 4,505 | $ 3,833 | $ 3,205 | $ 2,370 | $ 3,258 | $ 22,491 |
| Purchase obligations | 1,446 | 17 | 11 | — | — | — | 1,474 |
| Total commitments | $ 6,766 | $ 4,522 | $ 3,844 | $ 3,205 | $ 2,370 | $ 3,258 | $ 23,965 |

**Note 5: Income Taxes**

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act includes significant changes to the U.S. corporate income tax system including: a federal corporate rate reduction from 35% to 21%; limitations on the deductibility of interest expense and executive compensation; creation of the base erosion anti-abuse tax (“BEAT”), a new minimum tax; and the transition of U.S. international taxation from a worldwide tax system to a modified territorial tax system. The change to a modified territorial tax system resulted in a one-time U.S. tax liability on those earnings which have not previously been repatriated to the U.S. (the “Transition Tax”), with future distributions not subject to U.S. federal income tax when repatriated. A majority of the provisions in the Tax Act are effective January 1, 2018.

In response to the Tax Act, the SEC staff issued guidance on accounting for the tax effects of the Tax Act. The guidance provides a one-year measurement period for companies to complete the accounting. The Company reflected the income tax effects of those aspects of the Tax Act for which the accounting is complete. To the extent a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, a company should record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

In connection with the Company's initial analysis of the impact of the Tax Act, the Company has recorded a provisional estimate of discrete net tax expense of $508,000 for the period ended December 31, 2017. This discrete expense consists of provisional estimates of zero expense for the Transition Tax, $173,000 net benefit for the decrease in the Company's deferred tax liability on unremitted foreign earnings, and $681,000 net expense for remeasurement of the Company's deferred tax assets and liabilities for the corporate rate reduction.

After the passage of the Tax Act on December 22, 2017, all undistributed foreign earnings before the passage became subject to U.S. federal tax at reduced rates; however, the Company's provisional estimate is that there will be no net expense for the Transition Tax related to these undistributed earnings. Due to the change in U.S. federal tax law, management re-assessed its assertion to indefinitely reinvest unremitted foreign earnings for certain non-U.S. subsidiaries as of December 31, 2017. The Company recognized a benefit of $173,000 of deferred U.S. state and foreign withholding taxes related to certain non-U.S. subsidiaries withholding taxes on undistributed foreign earnings. This is a provisional estimate pending further legislative action from the states regarding conformity with the Tax Act. The estimated amount of the unrecognized deferred tax liability attributed to future withholding taxes on dividend distributions of undistributed earnings for certain non-U.S. subsidiaries, which the Company intends to reinvest the related earnings indefinitely in its operations outside the U.S., is approximately $441,000 at December 31, 2017.

The Company has not completed our accounting for the income tax effects of certain elements of the Tax Act. The Tax Act creates a new requirement that certain income such as Global Intangible Low-Taxed Income ("GILTI") earned by a controlled foreign corporation ("CFC") must be included in the gross income of the CFC U.S. shareholder. Because of the complexity of the new GILTI, the Company is continuing to evaluate these provisions of the Tax Act and whether taxes due on future U.S. inclusions related to GILTI should be recorded as a current-period expense when incurred, or factored into a company's measurement of its deferred taxes. As a result, the Company has not included an estimate of the tax expense or benefit related to these items for the period ended December 31, 2017.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| U.S. | $ 6,953 | $ 7,525 | $ 3,442 |
| Foreign | (2,235) | 2,474 | (864) |
| | $ 4,718 | $ 9,999 | $ 2,578 |

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

| | Current | Deferred | Total |
|---|---|---|---|
| | | (In thousands) | |
| **Year Ended December 31, 2017** | | | |
| Federal | $ 1,988 | $ 24 | $ 2,012 |
| State | 198 | (64) | 134 |
| Foreign | 905 | 75 | 980 |
| | $ 3,091 | $ 35 | $ 3,126 |
| **Year Ended December 31, 2016** | | | |
| Federal | $ 2,403 | $ (123) | $ 2,280 |
| State | 395 | 23 | 418 |
| Foreign | 1,391 | (97) | 1,294 |
| | $ 4,189 | $ (197) | $ 3,992 |
| **Year Ended December 31, 2015** | | | |
| Federal | $ (6,475) | $ (238) | $ (6,713) |
| State | 281 | 51 | 332 |
| Foreign | 454 | (18) | 436 |
| | $ (5,740) | $ (205) | $ (5,945) |

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, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Federal tax at statutory rates | $ 1,651 | $ 3,500 | $ 902 |
| State taxes, net of federal income tax benefit | 113 | 276 | 219 |
| Change of valuation allowance | 1,577 | 895 | 816 |
| Uncertain tax positions | (907) | (132) | (7,935) |
| Foreign income taxed at different rates | 72 | (509) | (124) |
| U.S. tax reform (the Tax Act) | 681 | — | — |
| Tax on undistributed earnings | (173) | — | — |
| Non-deductible expenses and other | 112 | (38) | 177 |
| Total income tax expense | $ 3,126 | $ 3,992 | $ (5,945) |

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, 2017 | December 31, 2016 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 9,250 | $ 7,239 |
| State income taxes | 65 | 159 |
| Accruals and allowances | 287 | 447 |
| Stock based compensation | 744 | 771 |
| Unrealized foreign exchange losses | 191 | 149 |
| Deferred revenue | 87 | 113 |
| Deferred rent | 418 | 625 |
| Total deferred tax assets | 11,042 | 9,503 |
| Valuation allowance | (9,249) | (7,168) |
| Total deferred tax assets net of valuation allowance | 1,793 | 2,335 |
| Deferred tax liabilities: | | |
| U.S. tax on undistributed earnings | — | (173) |
| Property, equipment and intangible assets | (277) | (351) |
| Total deferred tax liabilities | (277) | (524) |
| Net deferred tax assets | $ 1,516 | $ 1,811 |

Changes in the deferred tax assets valuation allowance for the years ended December 31, 2015, 2016 and 2017 are as follows (in thousands):

| | Balance at the beginning of the year | Charged (Credited) to expenses | Charged (Credited) to other account (*) | Balance at end of year |
|---|---|---|---|---|
| Deferred tax assets valuation allowance | | | | |
| 2015 | $ 6,431 | 816 | (307) | $ 6,940 |
| 2016 | $ 6,940 | 895 | (667) | $ 7,168 |
| 2017 | $ 7,168 | 1,577 | 504 | $ 9,249 |

(*) Amounts not charged (credited) to expenses are charged (credited) to stockholder's equity or deferred tax assets (liabilities).

As of December 31, 2017, the Company has a valuation allowance of approximately $9.2 million related to foreign net operating loss carryforwards ("NOL") of approximately $38.2 million for which it is more likely than not that the tax benefit will not be realized. The amount of the valuation allowance represented an increase of approximately $2.1 million over the amount recorded as of December 31, 2016, and was due to the increase in foreign operating losses. If not utilized, foreign NOL of $22.2 million may be carried forward indefinitely, and foreign NOL of $16.0 million will expire at various times between 2017 and 2025.

The total amount of gross unrecognized tax benefits was $725,000 as of December 31, 2017, of which up to $588,000 would affect the Company's effective tax rate if realized. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits in 2015, 2016, and 2017 is as follows (in thousands):

| | | |
|---|---|---|
| Gross unrecognized tax benefits balance at January 1, 2015 | $ | 10,025 |
| Increase related to prior year tax positions | | 898 |
| Decrease related to prior year tax positions | | — |
| Increase related to current year tax positions | | 11 |
| Settlements | | — |
| Lapse of statute of limitations | | (8,264) |
| Gross unrecognized tax benefits balance at December 31, 2015 | | 2,670 |
| Increase related to prior year tax positions | | 10 |
| Decrease related to prior year tax positions | | — |
| Increase related to current year tax positions | | — |
| Settlements | | — |
| Lapse of statute of limitations | | (323) |
| Gross unrecognized tax benefits balance at December 31, 2016 | | 2,357 |
| Increase related to prior year tax positions | | 21 |
| Decrease related to prior year tax positions | | (737) |
| Increase related to current year tax positions | | 4 |
| Settlements | | (920) |
| Lapse of statute of limitations | | — |
| Gross unrecognized tax benefits balance at December 31, 2017 | $ | 725 |

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, 2017, the Company had approximately $651,000 in accrued interest, of which $136,000 was a net increase in the amount accrued in 2017.

The Company files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Company settled the 2009 tax examination with federal tax authorities and settled the 2012, 2013 and 2014 tax examination with New York tax authorities. The Company is subject to U.S. federal and certain state tax examinations for certain years after 2010 and is subject to California tax examinations for years after 2005. The material foreign jurisdictions where the Company is subject to potential examinations by tax authorities are the France, Germany, Spain and United Kingdom for tax years after 2009.

Although the timing of initiation, resolution and/or closure of audits is highly uncertain, it is reasonably possible that the balance of the gross unrecognized tax benefits related to the method of computing income taxes in certain jurisdictions and losses reported on certain income tax returns could significantly change in the next 12 months. These changes may occur through settlement with the taxing authorities or the expiration of the statute of limitations on the returns filed. The Company is unable to estimate the range of possible adjustments to the balance of the gross unrecognized tax benefits.

**Note 6: Accumulated Other Comprehensive Loss**

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Beginning balance | $ (3,787) | $ (3,908) | $ (2,602) |
| Other comprehensive income (loss) due to foreign currency translation, net of tax | 190 | 121 | (1,306) |
| Ending balance | $ (3,597) | $ (3,787) | $ (3,908) |

There were no amounts reclassified from accumulated other comprehensive income (loss) for the years ended December 31, 2017, 2016 and 2015. Accumulated other comprehensive income (loss) consists of foreign currency translation gain or loss.

**Note 7: Employee Benefit Plan**

The Company maintains a 401(k) Profit Sharing Plan & Trust (the “401(k) Plan”) for its employees in the United States. The 401(k) Plan allows employees of the Company to contribute up to 80% of their eligible compensation, subject to certain limitations. Since 2006, the Company matches employee contributions up to $1,500 per year. Employee contributions are fully vested upon contribution, whereas the Company’s matching contributions are fully vested after the first year of service. The Company also has various defined contribution plans for its international employees. The Company’s contributions to these benefit plans were approximately $2.0 million, $1.9 million and $2.1 million for the years ended December 31, 2017, 2016 and 2015, respectively.

**Note 8: Stock-Based Compensation and Stock Options**

The Company accounts for its employee stock options under the fair value method, which requires stock-based compensation to be estimated using the fair value on the date of grant using an option-pricing model. The value of the portion of the award that is expected to vest is recognized on a straight-line basis as expense over the related employees’ requisite service periods in the Company’s consolidated statements of income.

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. During 2014, 25,000 options were canceled and 25,000 options were forfeited upon the departure of an executive. As of December 31, 2017, 50,000 of the options were vested and outstanding.

In September 2015, the Company granted an executive stock options to purchase 400,000 shares of common stock with an exercise price of $8.07, of which 50,000 options became exercisable quarterly starting March 31, 2016. The options expire in September 2025. As of December 31, 2017, 400,000 options were vested and outstanding.

In March 2016, the Company granted certain executives stock options to purchase 150,000 shares of common stock with an exercise price of $8.55, of which 37,500 options vest and become exercisable annually starting on March 7, 2017. The options expire in March 2026. In 2017, 37,500 options were forfeited and 12,500 options were canceled upon the departure of an executive and the compensation expense of $19,000 was reversed. As of December 31, 2017, 100,000 options were outstanding and 25,000 options of these options were vested.

In October, 2017, the Company granted an executive stock options to purchase 400,000 shares of common stock with an exercise price of $6.95, of which 50,000 shares are exercisable quarterly starting March 31, 2018 and ending on December 31, 2019. The options expire in October 2027. As of December 31, 2017, 400,000 options were outstanding and none options of these options were vested.

The Company recorded $1.0 million, $933,000 and $401,000 of stock-based compensation in general and administrative expenses for fiscal years 2017, 2016 and 2015, respectively.

The Company utilized the Black-Scholes option pricing model to value the stock options granted in 2016, 2015 and 2012. The Company used an expected life as defined under the simplified method, which is using an average of the contractual term and vesting period of the stock options. The risk-free interest rate used for the award is based on the U.S. Treasury yield curve in effect at the time of grant. The Company accounted for forfeitures as they occur. The historical volatility was calculated based upon implied volatility of the Company's historical stock prices.

The fair value of 2017, 2016 and 2015 stock options was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Weighted-average fair value of options granted per share | $ 3.11 | $ 4.73 | $ 4.42 |
| Historical volatility | 46% | 58% | 59% |
| Risk-free interest rate | 2.06% | 1.38% | 1.73% |
| Dividend yield | — | — | — |
| Expected life in years | 5.65 | 6.25 | 5.75 |

As of December 31, 2017, there was approximately $1.1 million of unrecognized stock-based compensation expense related to outstanding 2017 stock options, expected to be recognized over 2 year, and approximately $258,000 of unrecognized stock-based compensation expense relating to outstanding 2016 stock options. This amount is expected to be recognized over 2.2 years. There was no unrecognized stock-based compensation expense relating to 2015 and 2012 stock options grants.

Option activities during the years ended December 31, 2015, 2016, and 2017 were as follows:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life | Aggregate Intrinsic Value |
|---|---|---|---|---|
| | | | | (In thousands) |
| Outstanding at January 1, 2015 | 425,000 | $ 19.20 | 5.79 years | $ — |
| Option Granted | 400,000 | $ 8.07 | | |
| Options forfeited and canceled | (50,000) | $ 29.58 | | |
| Outstanding at December 31, 2015 | 775,000 | $ 12.78 | 5.53 years | $ 120 |
| Option Granted | 150,000 | $ 8.55 | | |
| Options forfeited and canceled | (325,000) | $ 16.09 | | |
| Outstanding at December 31, 2016 | 600,000 | $ 9.93 | 8.55 years | $ — |
| Option Granted | 400,000 | $ 6.95 | | |
| Options forfeited and canceled | (50,000) | $ 8.55 | | |
| Outstanding at December 31, 2017 | 950,000 | $ 8.75 | 8.48 years | $ — |
| Exercisable and fully vested at December 31, 2017 | 475,000 | $ 10.30 | 7.38 years | $ — |
| Outstanding at December 31, 2017 and expected to vest thereafter | 475,000 | $ 7.20 | 9.58 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, 2017, 2016 and 2015 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, 2017, 2016, and 2015. This amount changes based on the fair 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, 2017 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 |
|---|---|---|---|---|---|
| $ 28.98 | 50,000 | 4.07 years | $ 28.98 | 50,000 | 4.07 years |
| $ 8.07 | 400,000 | 7.75 years | $ 8.07 | 400,000 | 7.75 years |
| $ 8.55 | 100,000 | 8.19 years | $ 8.55 | 25,000 | 8.19 years |
| $ 6.95 | 400,000 | 9.84 years | $ 6.95 | — | 9.84 years |

**Note 9: 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 2012 and 2014, the Company announced a stock repurchase program authorizing to repurchase the Company's outstanding common stock of up to 1,000,000 shares and 500,000 shares, respectively. There were 268,000 shares remaining to be repurchased under the programs as of December 31, 2014. During the year ended December 31, 2015, the Company repurchased 212,000 shares of common stock for an aggregate purchase price of $1.7 million, which were recorded as part of treasury stock as of December 31, 2015. There were 56,000 shares remaining to be repurchased under this program as of December 31, 2015.

In February 2016, the Company announced a stock repurchase program authorizing the repurchase of up to 1,000,000 shares of the Company's outstanding common stock. During the year ended December 31, 2016, the Company repurchased 1,056,000 shares of common stock for an aggregate purchase price of $9.5 million, which were retired and recorded as a reduction of additional paid-in capital until extinguished with the remaining amount reflected as a reduction of retained earnings.

In February 2017, the Company announced a stock repurchase program authorizing the repurchase of up to 1,000,000 shares of the Company's outstanding common stock. During the year ended December 31, 2017, the Company repurchased 1,000,000 shares of common stock for an aggregate purchase price of $9.7 million, which were retired and recorded as a reduction of additional paid-in capital until extinguished with the remaining amount reflected as a reduction of retained earnings.

In March 2018, the Company announced a stock repurchase program authorizing the repurchase of up to 500,000 shares of the Company's outstanding common stock.

**Note 10: Segment Reporting and Significant Customer Information**

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

Management relies on an internal management reporting process that provides revenue and segment operating income for making financial decisions and allocating resources. Management believes that segment revenues and operating income 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, 2017 | Asia Pacific | Europe | North America | Other | Consolidated |
|---|---|---|---|---|---|
| Revenues from unaffiliated customers | $ 7,553 | $ 34,034 | $ 64,937 | $ — | $ 106,524 |
| Intersegment revenues | (34) | (353) | 387 | — | — |
| Total net revenues | $ 7,519 | $ 33,681 | $ 65,324 | — | $ 106,524 |
| Operating income (loss) | $ (5,967) | $ 2,290 | $ 8,222 | $ — | $ 4,545 |

| Year Ended December 31, 2016 | Asia Pacific | Europe | North America | Other (a) | Consolidated |
|---|---|---|---|---|---|
| Revenues from unaffiliated customers | $ 9,625 | $ 37,502 | $ 67,136 | $ — | $ 114,263 |
| Intersegment revenues | 73 | (595) | 522 | — | — |
| Total net revenues | $ 9,698 | $ 36,907 | $ 67,658 | — | $ 114,263 |
| Operating income (loss) | $ (3,890) | $ 5,604 | $ 8,472 | $ — | $ 10,186 |

| Year Ended December 31, 2015 | Asia Pacific | Europe | North America | Other (a) | Consolidated |
|---|---|---|---|---|---|
| Revenues from unaffiliated customers | $ 10,661 | $ 39,867 | $ 73,433 | $ — | $ 123,961 |
| Intersegment revenues | (12) | (131) | 143 | — | — |
| Total net revenues | $ 10,649 | $ 39,736 | $ 73,576 | — | $ 123,961 |
| Operating income (loss) | $ (2,469) | $ 2,472 | $ 3,817 | $ — | $ 3,820 |

| As of December 31, 2017 | Asia Pacific | Europe | North America | Elimination | Consolidated |
|---|---|---|---|---|---|
| Long-lived assets | $ 140 | $ 496 | $ 4,285 | $ — | $ 4,921 |
| Total assets | $ 3,697 | $ 54,593 | $ 60,246 | $ (72,864) | $ 45,672 |

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

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

For the years ended December 31, 2017, 2016 and 2015, the Company did not have any customers that accounted for 10% or more of revenue. As of December 31, 2017, the Company did not have any customers that accounted for 10% or more of accounts receivable. As of December 31, 2016, the Company had one customer that accounted for 16% of accounts receivable. Accounts receivable representing 10% or more of total accounts receivable was related to an advertising technology company that assists us with our Search product traffic monetization by using a traffic auction platform.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Asia Pacific | | | |
| Travel | $ 6,992 | $ 8,845 | $ 9,355 |
| Local | 527 | 853 | 1,294 |
| Total Asia Pacific revenues | $ 7,519 | $ 9,698 | $ 10,649 |
| Europe | | | |
| Travel | $ 29,180 | $ 31,087 | $ 33,603 |
| Local | 4,501 | 5,820 | 6,133 |
| Total Europe revenues | $ 33,681 | $ 36,907 | $ 39,736 |
| North America | | | |
| Travel | $ 53,880 | $ 54,248 | $ 56,156 |
| Local | 11,444 | 13,410 | 17,420 |
| Total North America revenues | $ 65,324 | $ 67,658 | $ 73,576 |
| Consolidated | | | |
| Travel | $ 90,052 | $ 94,180 | $ 99,114 |
| Local | 16,472 | 20,083 | 24,847 |
| Total revenues | $ 106,524 | $ 114,263 | $ 123,961 |

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 were 10% or more of total revenue (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Revenue | | | |
| United States | $ 59,812 | $ 62,456 | $ 68,441 |
| United Kingdom | 19,113 | 22,263 | 25,865 |
| Germany | 12,226 | 12,576 | 12,534 |
| Rest of the world | 15,373 | 16,968 | 17,121 |
| Total revenues | $ 106,524 | $ 114,263 | $ 123,961 |

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

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| United States | $ 3,893 | $ 4,755 |
| Rest of the world | 1,028 | 1,403 |
| Total long lived assets | $ 4,921 | $ 6,158 |

**Note 11: Discontinued Operations**

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

A reconciliation of the line items comprising the results of operations of the Search products to the income (loss) from discontinued operations through the date of disposal presented in the consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015, in thousands, is included in the following table:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Revenues from Search | $ 2,088 | $ 14,289 | $ 17,755 |
| Cost of revenues | (101) | (458) | (676) |
| Gross profit | 1,987 | 13,831 | 17,079 |
| Total operating expenses | (1,817) | (12,949) | (13,753) |
| Gain on sale of Fly.com domain name | 2,890 | — | — |
| Income from discontinued operations before income taxes | 3,060 | 882 | 3,326 |
| Income tax expense | 1,122 | 258 | 985 |
| Income from discontinued operations, net of income taxes | $ 1,938 | $ 624 | $ 2,341 |

**Note 12: Related Party Transactions**

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

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

Ralph Bartel, who founded Travelzoo and who is a Director of the Company is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro Capital Inc. As of December 31, 2017, Azzurro is the Company's largest stockholder, holding approximately 57.8% of the Company's outstanding shares.

Since Azzurro Capital Inc. had a controlling interest in both Travelzoo and the Travelzoo Asia Pacific business at the time of the transaction and in prior periods, this transaction is accounted for as a common control transaction and a change in reporting entity for the Company. The financial results for Travelzoo were retrospectively adjusted to include the financial results of Asia Pacific in the 2015 as though the transaction occurred at the beginning of each period presented, including the following adjustments:

| | Year Ended December 31, 2015 |
|---|---|
| Revenue | $ 10,774 |
| Operating Loss | $ (2,436) |
| Net Loss | $ (3,096) |
| Other Comprehensive Income | $ 305 |
| Basic and diluted earnings per share | $ (0.21) |

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

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

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

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

On August 20, 2015, as part of the transaction proceeds Travelzoo (Europe) Limited issued a promissory note to Azzurro with a principal amount of $5.7 million, with a maturity date of August 20, 2018 and the ability to pay off principal prior to this maturity date with no prepayment penalty and a stated interest rate of 7%, which is due and payable on a quarterly basis. Accrued interest for the loans and promissory note outstanding was $267,000 for the year ended December 31, 2015. In January 2016, the full amount of the loan was paid off by Travelzoo (Europe) Limited.

On September 28, 2015, Holger Bartel, Executive Chairman and Chairman of the Board of Directors, was granted 400,000 stock options that vest through December 31, 2017 in connection with his appointment to the role of Global Chief Executive Officer. See Note 8 to the accompanying consolidated financial statements for further information.

On October 30, 2017, Holger Bartel, Global Chief Executive Officer, was granted 400,000 stock options that vest through December 31, 2019. See Note 8 to the accompanying consolidated financial statements for further information.

**Note 13: Unaudited Quarterly Information**

The following represents unaudited quarterly financial data (in thousands, except per share amounts) for 2017 and 2016:

| | Quarter Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Dec 31, 2017 | Sep 30, 2017 | Jun 30, 2017 | Mar 31, 2017 | Dec 31, 2016 | Sep 30, 2016 | Jun 30, 2016 | Mar 31, 2016 |
| Revenues | $ 26,997 | $ 24,687 | $ 26,411 | 28,429 | $ 26,814 | $ 26,823 | $ 29,798 | $ 30,828 |
| Cost of revenues | 3,462 | 3,018 | 3,222 | 3,207 | 3,263 | 3,270 | 3,471 | 3,851 |
| Gross profit | 23,535 | 21,669 | 23,189 | 25,222 | 23,551 | 23,553 | 26,327 | 26,977 |
| Operating expenses: | | | | | | | | |
| Sales and marketing | 13,746 | 13,973 | 14,213 | 15,356 | 13,369 | 14,075 | 15,455 | 15,530 |
| Product development | 2,208 | 2,315 | 2,344 | 2,357 | 2,077 | 2,230 | 2,001 | 2,788 |
| General and administrative | 6,502 | 5,363 | 5,246 | 5,447 | 6,077 | 5,373 | 5,434 | 5,813 |
| Total operating expenses | 22,456 | 21,651 | 21,803 | 23,160 | 21,523 | 21,678 | 22,890 | 24,131 |
| Income from continuing operations | 1,079 | 18 | 1,386 | 2,062 | 2,028 | 1,875 | 3,437 | 2,846 |
| Other income (loss), net | 62 | 86 | 18 | 7 | (480) | 251 | (91) | 133 |
| Income from continuing operations before income taxes | 1,141 | 104 | 1,404 | 2,069 | 1,548 | 2,126 | 3,346 | 2,979 |
| Income tax expense | 466 | 680 | 771 | 1,209 | 542 | 748 | 1,548 | 1,154 |
| Income (loss) from continuing operations | 675 | (576) | 633 | 860 | 1,006 | 1,378 | 1,798 | 1,825 |
| Income (loss) from discontinued operations, net of income taxes | — | — | 54 | 1,884 | (63) | 241 | 222 | 224 |
| Net income (loss) | $ 675 | $ (576) | $ 687 | $ 2,744 | $ 943 | $ 1,619 | $ 2,020 | $ 2,049 |
| Income (loss) per share—basic: | | | | | | | | |
| Continuing operations | $ 0.05 | $ (0.05) | $ 0.05 | $ 0.07 | $ 0.07 | $ 0.10 | $ 0.13 | $ 0.13 |
| Discontinued operations | — | — | — | 0.14 | — | 0.02 | 0.01 | 0.01 |
| Net income (loss) per share—basic | $ 0.05 | $ (0.05) | $ 0.05 | $ 0.21 | $ 0.07 | $ 0.12 | $ 0.14 | $ 0.14 |
| Income (loss) per share—diluted: | | | | | | | | |
| Continuing operations | $ 0.05 | $ (0.05) | $ 0.05 | $ 0.07 | $ 0.07 | $ 0.10 | $ 0.13 | $ 0.13 |
| Discontinued operations | — | — | — | 0.14 | — | 0.02 | 0.01 | 0.01 |
| Net (loss) income per share—diluted | $ 0.05 | $ (0.05) | $ 0.05 | $ 0.21 | $ 0.07 | $ 0.12 | $ 0.14 | $ 0.14 |

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

None

**Item 9A.** ***Controls and Procedures***

**Evaluation of Disclosure Controls and Procedures**

Based on management's evaluation (with the participation of the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO)), as of December 31, 2017, our CEO and CFO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in U.S. Securities and Exchange Commission (SEC) rules and forms, and that such information is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

**Changes in Internal Control Over Financial Reporting**

During the quarter ended December 31, 2017, there were no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017, the end of our fiscal year. Management based its assessment on criteria established in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2017 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with generally accepted accounting principles.

Our independent registered public accounting firm, PricewaterhouseCoopers LLP, audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, as stated in the firm's audit report, which is included within Part II, Item 8 of this Form 10-K.

/s/ HOLGER BARTEL
Holger Bartel
*Global Chief Executive Officer*

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

March 15, 2018

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

Not applicable.

## PART III

**Item 10.** ***Directors, Executive Officers and Corporate Governance***

Information required by this item is incorporated by reference to Travelzoo's Definitive Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of Travelzoo's fiscal year ended December 31, 2017 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 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2017, 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 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2017, 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 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2017, 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 2018 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:*



*(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

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

Date: March 15, 2018

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

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

| Signatures | Title(s) | Date |
|---|---|---|
| /s/ RALPH BARTEL<br>Ralph Bartel | Chairman of the Board of Directors | March 15, 2018 |
| /s/ GLEN CEREMONY<br>Glen Ceremony | Chief Financial Officer and Principal Accounting Officer | March 15, 2018 |
| /s/ RACHEL BARNETT<br>Rachel Barnett | Director | March 15, 2018 |
| /s/ CARRIE LIQUN LIU<br>Carrie Liqun Liu | Director | March 15, 2018 |
| /s/ MARY REILLY<br>Mary Reilly | Director | March 15, 2018 |
| /s/ BEATRICE TARKA<br>Beatrice Tarka | Director | March 15, 2018 |

## EXHIBIT INDEX

| Exhibit Number | | Description |
|---|---|---|
| 3.1 | — | Certificate of Incorporation of Travelzoo (Incorporated by reference to our Pre-Effective Amendment No. 6 to our Registration Statement on Form S-4 (File No. 333-55026), filed February 14, 2002). |
| 3.2 | — | Certificate of Incorporation of Travelzoo and Certificates of Amendment To the Certificate of Incorporation to Effect a Reverse Stock Split Followed by a Forward Stock Split Of Travelzoo's Common Stock. (Incorporated by reference to Exhibit 3.2 on Form 10-K(File No. 000-50171), filed February 12, 2014) |
| 3.3 | — | By-laws of Travelzoo (Incorporated by reference to our Pre-Effective Amendment No. 6 to our Registration Statement on Form S-4 (File No. 333-55026), filed February 14, 2002). |
| 10.1 | — | Form of Director and Officer Indemnification Agreement (Incorporated by reference to Exhibit 10.1 on Form 10-Q (File No. 000-50171), filed November 9, 2007) |
| 10.2 | — | Agreement of Lease, effective as of February 1, 2008, between Travelzoo and 590 Madison Avenue, LLC (Incorporated by reference to Exhibit 10.1 on Form 8-K (File No. 000-50171), filed February 7, 2008) |
| 10.3 | — | Asset Purchase Agreement, dated September 30, 2009, by and among Travelzoo, 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) |
| 10.4 | — | Asset Purchase Agreement, dated September 30, 2009, by and among Travelzoo, 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) |
| 10.5 | — | Option Agreement, dated September 30, 2009, between Travelzoo and Azzurro Capital Inc. (Incorporated by reference to Exhibit 10.3 on Form 8-K (File No. 000-50171), filed October 5, 2009) |
| 10.6* | — | Nonqualified Stock Option Agreement between Travelzoo and Glen Ceremony dated January 23,2012 (Incorporated by reference to Exhibit 10.1 on Form 8-K (File No. 000-50171), filed March 30, 2012) |
| 10.7* | — | Employment Agreement, dated May 9, 2011 between Glen Ceremony and Travelzoo (Incorporated by reference to Exhibit 10.1on Form 8-K (File No. 000-50171), filed May 20, 2011) |
| 10.8* | — | Employment Agreement, dated September 28, 2015 between Holger Bartel and Travelzoo (Incorporated by reference to Exhibit 10.23 on Form 8-K (File No. 000-50171), filed October 1, 2015) |

| | | |
|---|---|---|
| 10.9* | — | Nonqualified Stock Option Agreement between Travelzoo and Holger Bartel dated September 28, 2015. (Incorporated by reference to Exhibit 10.24 on Form 8-K (File No. 000-50171), filed October 1, 2015) |
| 10.10* | — | Employment Agreement, amendment effective date January 1, 2013, between Glen Ceremony and Travelzoo (Incorporated by reference to Exhibit 10.17 on Form 10-Q (File No. 000-50171), filed April 25, 2014) |
| 10.11* | — | Employment Agreement, amendments effective dates July 1, 2012 and January 1, 2013, between Richard Singer and Travelzoo (Incorporated by reference to Exhibit 10.19 on Form 10-Q (File No. 000-50171), filed April 25, 2014) |
| 10.12 | — | Security Purchase Agreement, dated August 20, 2015, by and among Travelzoo (Europe) Limited, and Travelzoo (Asia Pacific) with Exhibits (Incorporated by reference to Exhibit 10.1 on Form 8-K (File No. 000-50171), filed August 26, 2015) |
| 10.13* | — | Employment Agreement, dated September 30, 2015, between Michael Stitt and Travelzoo (Incorporated by reference to Exhibit 10.24 on Form 10-K (File No. 000-50171), filed March 14, 2016) |
| 10.14* | — | Employment Agreement, dated January 1, 2016, between Vivian Hong and Travelzoo (Incorporated by reference to Exhibit 10.28 on Form 10-K (File No. 000-50171), filed March 14, 2016) |
| 10.15* | — | Nonqualified Stock Option Agreement between Travelzoo and Mike Stitt dated March 7, 2016. (Incorporated by reference to Exhibit 10.29 on Form 10-K (File No. 000-50171), filed March 14, 2016) |
| 10.16* | — | Nonqualified Stock Option Agreement between Travelzoo and Richard Singer dated March 7, 2016. (Incorporated by reference to Exhibit 10.30 on Form 10-K (File No. 000-50171), filed March 14, 2016) |
| 10.17* | — | Mutual Separation Agreement between Vivian Hong and Travelzoo dated November 1, 2017. (Incorporated by reference to Exhibit 10.2 on Form 10-Q (File No. 000-50171), filed November 2, 2017) |
| 10.18* | — | Nonqualified Stock Option Agreement between Travelzoo and Holger Bartel dated October 30, 2017. (Incorporated by reference to Exhibit 10.3 on Form 8-K (File No. 000-50171), filed November 2, 2017) |
| 21.1‡ | — | Subsidiaries of Travelzoo |
| 23.1‡ | — | Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm |
| 23.2‡ | — | Consent of KPMG LLP, 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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