

TRAVELZOO INC  
Form 10-K/A  
May 06, 2010

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Form 10-K/A**

(Amendment No. 1)

(Mark One)

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

x

**For the fiscal year ended December 31, 2009**

**or**

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

..

**For the transition period from            to**

**Commission File No.: 000-50171**

**TRAVELZOO INC.**

*(Exact Name of Registrant as Specified in its Charter)*

**DELAWARE**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

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

*(Address of Principal Executive Offices)*

**36-4415727**

*(I.R.S. Employer  
Identification No.)*

**10022**

*(Zip Code)*

**Registrant's telephone number, including area code:**

**(212) 484-4900**

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

**NONE**

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:**

**Common Stock, \$0.01 Par Value**

*(Title of Class)*

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 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  Smaller reporting company

(Do not check if a 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

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As of June 30, 2009, 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 \$60,650,437.

The number of shares outstanding of the Registrant's Common Stock as of February 26, 2010 was 16,443,828.

### Explanatory Note

Travelzoo Inc. (the Company) is filing this Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 31, 2009, originally filed with the Securities and Exchange Commission on March 16, 2010, solely in order to correct the following errors:

§ In the table under the Reach section in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, the Company has corrected the number of subscribers to its *Travelzoo Top 20* e-mail newsletter in Europe and Year-Over-Year Growth of such subscribers to read 3,520,000 instead of 3,206,000 and 62% instead of 47%, respectively. The Company also made a conforming change in the second paragraph following the table.

§ In the table under the Reach section in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, the Company has corrected the number of subscribers to its *Newsflash* e-mail alert service in Europe and Year-Over-Year Growth of such subscribers to read 3,435,000 instead of 3,116,000 and 66% instead of 50%, respectively.

This Amendment No. 1 amends the errors in Item 7 described above. All other items and exhibits contained in the Annual Report on Form 10-K as filed on March 16, 2010 remain unchanged. This Amendment No. 1 does not reflect facts or events occurring after the original filing date of March 16, 2010 or modify (except as set forth above) or update the disclosures in any way. Accordingly, this Amendment No. 1 should be read in conjunction with the original filing. In accordance with Exchange Act Rule 12b-15, new certifications of the Company's Chief Executive Officer and Chief Financial Officer are also being filed.

**TRAVELZOO INC.**

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## Forward-Looking Statements

The information in this Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based upon current expectations, assumptions, estimates and projections about Travelzoo Inc. and our industry. These forward-looking statements are subject to the many risks and uncertainties that exist in our operations and business environment that may cause actual results, performance or achievements of Travelzoo to be different from those expected or anticipated in the forward-looking statements. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as may, will, should, estimates, predicts, potential, continue, strategy, believes, anticipates, plans, expects, in expressions are intended to identify forward-looking statements. Travelzoo's actual results and the timing of certain events could differ significantly from those anticipated in such forward-looking statements. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those discussed in Part I, Item 1A in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, originally filed with the Securities and Exchange Commission on March 16, 2010, and the risks discussed in our other Securities and Exchange Commission (SEC) filings. The forward-looking statements included in this Report reflect the beliefs of our management on the date of this Report. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events or circumstances occur in the future.

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

The following discussion and analysis of Travelzoo's financial condition and results of operations should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements and the notes thereto appearing elsewhere in this report.

**Overview**

Travelzoo Inc. is a global Internet media company. We inform over 18 million subscribers worldwide, as well as millions of Web site users, about the best travel and entertainment deals available from thousands of companies. We publish these offers by sourcing, researching, test-booking, and selecting offers professionally. We provide airlines, hotels, cruise lines, vacation packagers, and other travel and entertainment companies with a fast, flexible, and cost effective way to reach millions of consumers. Our revenues are generated from advertising fees.

Our publications and products include the *Travelzoo* Web sites ([www.travelzoo.com](http://www.travelzoo.com), [www.travelzoo.ca](http://www.travelzoo.ca), [www.travelzoo.co.uk](http://www.travelzoo.co.uk), [www.travelzoo.de](http://www.travelzoo.de), [www.travelzoo.com.es](http://www.travelzoo.com.es), [www.travelzoo.fr](http://www.travelzoo.fr), among others), the *Travelzoo Top 20* e-mail newsletter, and the *Newsflash* e-mail alert service. We operate *SuperSearch*, a pay-per-click travel search tool and the *Travelzoo Network*, a network of third-party Web sites that list deals published by Travelzoo. We also operate *Fly.com*, a travel search engine that allows users to quickly and easily find and compare the best prices on flights from hundreds of airlines and online travel agencies. More than 2,000 travel and entertainment companies use our services.

On October 31, 2009, we completed the sale of our Asia Pacific operating segment to Azzurro Capital Inc. and its wholly-owned subsidiaries, Travelzoo (Asia) Limited and Travelzoo Japan K.K. The results of operations of the Asia Pacific operating segment have been classified as discontinued operations for all periods presented. We have not had significant ongoing involvement with the operations of the Asia Pacific operating segment and have not had any economic interests in the Asia Pacific operating segment since the completion of the sale. Starting November 1, 2009, the *Travelzoo* Web sites in Asia Pacific ([cn.travelzoo.com](http://cn.travelzoo.com), [www.travelzoo.co.jp](http://www.travelzoo.co.jp), [www.travelzoo.com.au](http://www.travelzoo.com.au), [www.travelzoo.com.hk](http://www.travelzoo.com.hk), [www.travelzoo.com.tw](http://www.travelzoo.com.tw), among others), the *Travelzoo Top 20* e-mail newsletters in Asia Pacific and the *Newsflash* e-mail alert service in Asia Pacific are published by Travelzoo (Asia) Limited and Travelzoo Japan K.K., wholly owned subsidiaries of Azzurro Capital Inc., under a license agreement with the Company. See Note 11 to the accompanying consolidated financial statements.

Our revenues are advertising revenues, consisting of listing fees paid primarily by travel and entertainment companies to advertise their offers on the *Travelzoo* Web sites, in the *Travelzoo Top 20* e-mail newsletter, in the *Newsflash*



e-mail alert service, in *SuperSearch*, through the *Travelzoo Network*, and on *Fly.com*. Revenues are principally generated from the sale of advertising in the U.S. Listing fees are based on placement, number of listings, number of impressions, number of click-throughs, or number of referrals. Smaller advertising agreements typically \$2,000 or less per month typically renew automatically each month if they are not terminated by the client. Larger agreements are typically related to advertising campaigns and are not automatically renewed.

We have two operating segments based on geographic regions: North America and Europe. North America consists of our operations in Canada and the U.S. Europe consists of our operations in France, Germany, Spain, and the U.K. For the year ended December 31, 2009, our operations in Europe accounted for 17% of revenues and our operations in North America accounted for 83% of revenues.

When evaluating the financial condition and operating performance of the Company, management focuses on the following financial and non-financial indicators:

§ Growth of number of subscribers of the Company's newsletters and page views of the homepages of the *Travelzoo* Web sites;

§ Operating margin;

§ Growth in revenues in the absolute and relative to the growth in reach of the Company's publications; and

§ Revenue per employee as a measure of productivity.

### **Critical Accounting Policies**

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

### **Revenue Recognition**

We recognize revenue on arrangements in accordance with SEC Staff Accounting Bulletin for revenue recognition. We recognize advertising revenues in the period in which the advertisement is displayed, 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 recognizes revenue for the period by pro-rating the total arrangement fee to revenue and deferred revenue based on a measure of proportionate performance of its obligation under the insertion order. The Company measures proportionate performance by the number of placements delivered and undelivered as of the reporting date. The Company uses prices stated on its internal rate card for measuring the value of delivered and undelivered placements. Fees for variable-fee advertising arrangements are recognized based on the number of impressions displayed, number of clicks delivered, or number of referrals generated during the period.

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

§ *Evidence of an arrangement.* We consider an insertion order signed by the client or its agency to be evidence of an arrangement.

§ *Delivery.* Delivery is considered to occur when the advertising has been displayed and, if applicable, the click-throughs have been delivered.

§ *Fixed or determinable fee.* We consider the fee to be fixed or determinable if the fee is not subject to refund or adjustment and payment terms are standard.

§ *Collection is deemed reasonably assured.* We conduct a credit review for all transactions at the time of the arrangement to determine the creditworthiness of the client. Collection is deemed reasonably assured if we expect that the client will be able to pay amounts under the arrangement as payments become 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 not reasonably assured when a client 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.

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

### **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 client, the economic conditions of the client'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 clients were to deteriorate, affecting their ability to make payments, additional provision for doubtful accounts may be required.

### **Liability to Former Stockholders**

On October 15, 2004, we announced a program under which we would make cash payments to people who establish that they were former stockholders of Travelzoo.com Corporation, and who failed to submit requests to convert shares into Travelzoo Inc. within the required time period. We account for the cost of this program as an expense recorded in general and administrative expenses and a current accrued liability. The ultimate total cost of this 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 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. We do not know how many of the requests for shares originally received by Travelzoo.com Corporation in 1998 were valid. We believe that only a portion of such requests were valid. In order to receive payment under the program, a person is required to establish that such person validly held shares in Travelzoo.com Corporation.

Since the total cost of the program is not reliably estimable, the amount of expense recorded in a period is equal to the actual number of valid claims received during the period multiplied by (i) the number of shares held by each individual former stockholder and (ii) the applicable settlement price based on the recent price of our common stock at the date the claim is received as stipulated by the program. Requests are generally paid within 30 days of receipt. Please refer to Note 3 to the consolidated financial statements for further details about our liabilities to former stockholders.

### **Results of Operations**

The following table sets forth, as a percentage of total revenues, the results of our operations for the years ended December 31, 2009, 2008 and 2007.



	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Revenues	100.0%	100.0%	100.0%
Cost of revenues	6.0	3.5	1.2
Gross profit	94.0	96.5	98.8
Operating expenses:			
Sales and marketing	52.9	53.6	51.4
General and administrative	26.5	26.4	17.4
Total operating expenses	79.4	80.0	68.8
Income from operations	14.6	16.5	30.0
Other income and expenses, net	(0.1)	1.0	1.9
Income from continuing operations before income taxes	14.5	17.5	31.9
Income taxes	7.7	10.1	16.5
Income from continuing operations	6.8	7.4	15.4
Loss from discontinued operations, net of taxes	(1.3)	(12.4)	(3.8)
Net income (loss)	5.5%	(5.0)%	11.6%

For the year ended December 31, 2009, we reported income from continuing operations of approximately \$6.4 million. As of December 31, 2009, we had retained earnings of approximately \$27.0 million. Our operating margin decreased to 14.6% for the year ended December 31, 2009 from 16.5% in 2008. The main reason for the decrease in operating margin is our cost of revenues as a percentage of revenues increased for the year ended December 31, 2009 compared to prior year (see *Cost of Revenues* below). This was partially offset by a decrease in operating expense as a percentage of revenues for the year ended December 31, 2009 compared to prior year (see *Operating Expenses* below).

We do not know whether our cost of revenues as a percentage of revenues will continue to increase in future periods. Our cost of revenues will increase if the number of searches performed on *Fly.com* increases because we pay a fee based on the number of searches performed on *Fly.com*. We expect fluctuations of 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. Increases in the average cost of acquiring new subscribers (see *Subscriber Acquisition* below) may result in an increase of sales and marketing expenses as a percentage of revenue. We may decide to accelerate our subscriber acquisition for various strategic and tactical reasons and, as a result, increase our marketing expenses. We may see a unique opportunity for a brand marketing campaign that will result in an increase of marketing expenses. Further, we expect our strategy to replicate our business model in selected foreign markets (see *Growth Strategy* below) to result in a significant increase in our sales and marketing expenses and have a material adverse impact on our results of operations. We expect fluctuations of 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 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 a significant additional increase in our general and administrative expenses. Our general and administrative expenses as a percentage of revenue may also fluctuate depending on the number of requests received related to a program under which the Company intends to make cash payments to people who

establish that they were former stockholders of Travelzoo.com Corporation, and who failed to submit requests to convert shares into Travelzoo Inc. within the required time period.

### ***Reach***

The following table sets forth the number of subscribers of each of our e-mail publications in North America and Europe as of December 31, 2009 and 2008 and the total number of page views for the homepages of the *Travelzoo* Web sites in North America and Europe for the years ended December 31, 2009 and 2008. Management considers page views for the *Travelzoo* homepages as indicators for the growth of Web site traffic. Management reviews these non-financial metrics for two reasons: First, to monitor our progress in increasing the reach of our products. Second, to evaluate whether we are able to convert higher reach into higher revenues.

	<b>Year Ended</b>		<b>Year-Over-Year Growth(1)</b>
	<b>2009</b>	<b>December 31, 2008</b>	
<b>Subscribers:</b>			
North America			
<i>Travelzoo Top 20</i>	12,680,000	10,769,000	18%
<i>Newsflash</i>	10,905,000	8,888,000	23%
Europe			
<i>Travelzoo Top 20</i>	3,520,000	2,176,000	62%
<i>Newsflash</i>	3,435,000	2,075,000	66%
<b>Page views of homepages of <i>Travelzoo</i> Web sites:</b>			
North America			
	36,455,000	28,600,000	27%
Europe			
	16,491,000	7,237,000	128%

(1) The comparability of year-over-year changes of page views of the homepages of *Travelzoo* Websites may be limited due to the design and navigation of the Web sites.

In North America, revenues for the year ended December 31, 2009 increased by 9% from the previous year. The total number of subscribers in North America to the *Travelzoo Top 20* e-mail newsletter as of December 31, 2009 increased by 18% compared to December 31, 2008 and page views of the homepages of the *Travelzoo* North America Web sites in North America for the year ended December, 31, 2009 increased by 27% from the previous year. In North America, revenues for the year ended December 31, 2009 compared to the year ended December 31, 2008 increased at a lower rate than the rate of increase in the number of subscribers to our *Travelzoo Top 20* e-mail newsletter and the rate of increase in Web site traffic. In North America, we believe we were unable to fully convert higher reach into higher



revenues because we were unable to increase our advertising rates significantly due to intense competition in our industry.

In Europe, revenues for the year ended December 31, 2009 increased by 70% from the previous year. The total number of subscribers in Europe to the *Travelzoo Top 20* e-mail newsletter as of December 31, 2009 increased by 62% compared to December 31, 2008 and page views of the homepages of the *Travelzoo* Web sites in Europe for the year ended December 31, 2009 increased by 128% from the previous year. In Europe, revenues increased at a higher rate than the rate of growth in subscribers to the *Travelzoo Top 20* e-mail newsletter.

### ***Revenues***

Our total revenues increased to \$94.0 million for the year ended December 31, 2009 from \$80.8 million for the year ended December 31, 2008. This represents an increase of \$13.2 million or 16%. \$6.7 million of the increase in revenues came from our operations in Europe, which had an increase of 70% in revenues year-over-year and was attributed primarily to a \$4.7 million increase in revenue from fixed-fee

advertising delivered in the *Travelzoo Top 20* e-mail newsletter and on the *Travelzoo* Web site, an \$818,000 increase in revenue from variable-fee advertising delivered in the *Travelzoo Top 20* e-mail newsletter and on the *Travelzoo* Web site, and a \$706,000 increase in revenue from our *Newsflash* e-mail alert service. In local currency terms, revenues from our operations in Europe increased 98% year-over-year. The strengthening of the U.S. dollar relative to the British Pound Sterling and the Euro in the year ended December 31, 2009 compared to the year ended December 31, 2008 had an unfavorable impact on the revenues from our operations in Europe. Had foreign exchange rates remained constant in these periods, revenues from our operations in Europe for the year ended December 31, 2009 would have been approximately \$2.1 million higher than reported revenues of \$16.3 million. \$6.6 million of the increase in revenues came from our operations in North America and was attributed primarily to a \$4.4 million increase in revenues from our publications, which includes the *Travelzoo* Web site, the *Travelzoo Top 20* e-mail newsletter and the *Newsflash* e-mail alert service and a \$2.1 million increase in revenues from our search products, which consist of *SuperSearch* and *Fly.com*. We launched *Fly.com* in February 2009.

Our total revenues increased to \$80.8 million for the year ended December 31, 2008 from \$78.9 million for the year ended December 31, 2007. This represents an increase of \$1.9 million or 2%. \$3.7 million of the increase in revenues came from our operations in Europe, an increase of 64% year over year, and resulted primarily from a \$3.5 million increase in revenue from fixed-fee advertising delivered in the *Travelzoo Top 20* e-mail newsletter and on the *Travelzoo* Web site. The increase in revenues from our operations in Europe was offset by a \$1.9 million decrease in revenues from our operations in North America. With respect to the decrease in North American revenue, the Company recorded a decrease in revenues of approximately \$2.8 million from its publications which included the *Travelzoo* Web site, *Travelzoo Top 20* newsletter and *Newsflash*, and a decrease in revenues of approximately \$4.6 million from *SuperSearch*. These decreases were offset by approximately \$3.1 million increased revenue from new customers and approximately \$2.4 million increased revenue from the *Travelzoo Network*.

As discussed in Note 8 to the accompanying consolidated financial statements, none of our customers accounted for 10% or more of our revenue in the year ended December 31, 2009. Orbitz Worldwide accounted for 13% of our total revenues in the year ended December 31, 2008. In the year ended December 31, 2007, Orbitz Worldwide and Expedia, Inc. accounted for 15% and 11% of our total revenues, respectively. No other clients accounted for 10% or more of our total revenues during the years ended December 31, 2008 or 2007. The agreements with these clients are in the form of multiple insertion orders from groups of entities under common control. Although we did not have any clients that accounted for 10% or more of our total revenues during the year ended December 31, 2009, it is possible that we may have a client or clients that account for 10% or more of our total revenues in future years because management believes there is a high concentration in the online travel agency industry.

Management believes that our ability to increase revenues in the future depends mainly on the following factors:

§ Our ability to increase our advertising rates;

§ Our ability to sell more advertising to existing clients;

§ Our ability to increase the number of clients;

§ Our ability to develop new revenue streams; and

§ Our ability to launch new products.

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. We believe that we can sell more advertising only 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 online advertising continues to grow. We do not know if we will be able to maintain or increase our market share. We have historically increased the

number of clients in each year since inception. We do not know if we will be able to increase the number of clients in the future. We do not know if we will have market acceptance of our new products.

Our goal is to increase our advertising rates at least once a year in each market, preferably as of January 1 of each year. However, we did not increase our advertising rates in the U.S. on January 1, 2008 and 2009 due to intense competition in our industry. We intend to review advertising rates and consider increases once a year as of January 1. However, there is no assurance that there will be increases of advertising rates. Depending on the level of competition in the industry and the condition of the online advertising market, we may decide not to increase our advertising rates in all or certain markets.

Average revenue per employee decreased to \$487,000 for the year ended December 31, 2009 from \$496,000 for the year ended December 31, 2008 and our average revenue per employee decreased to \$496,000 for the year ended December 31, 2008 from \$612,000 for the year ended December 31, 2007.

### ***Cost of Revenues***

Cost of revenues consists primarily of network expenses, including fees we pay for co-location services, depreciation and maintenance of network equipment, payments made to third-party partners of the *Travelzoo Network*, fees we pay related to user searches on *Fly.com*, amortization of capitalized Web site development costs, and salary expenses associated with network operations staff. Our cost of revenues increased to \$5.6 million for the year ended December 31, 2009 from \$2.8 million for the year ended December 31, 2008. As a percentage of revenue, cost of revenues was 6.0%, up from 3.5% for the year ended December 31, 2008. The \$2.8 million increase in cost of revenues for the year ended December 31, 2009 compared to the year ended December 31, 2008 was primarily due to a \$1.5 million increase in fees we paid related to user searches on *Fly.com*, an \$862,000 increase in depreciation, amortization and maintenance costs, and a \$355,000 increase in payments made to third-party partners of the *Travelzoo Network*. Our cost of revenues increased to \$2.8 million for the year ended December 31, 2008 from \$957,000 for the year ended December 31, 2007. As a percentage of revenue, cost of revenues was 3.5%, up from 1.2% for the year ended December 31, 2007. The \$1.9 million increase in cost of revenues for the year ended December 31, 2008 compared to the year ended December 31, 2007 was primarily due to a \$990,000 increase in payments made to affiliate partners of the *Travelzoo Network* and a \$302,000 increase in salary expense.

### ***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 increased to \$49.7 million for the year ended December 31, 2009 from \$43.3 million for the year ended December 31, 2008. The \$6.4 million increase in sales and marketing expenses for the year ended December 31, 2009 compared to the year ended December 31, 2008 was primarily due to a \$2.4 million increase in salary and employee related expenses, a \$2.6 million increase in advertising to acquire new subscribers for our e-mail products, a \$2.1 million increase in marketing expenses for *Fly.com*, and an \$876,000 increase in advertising to acquire traffic to our Web sites offset by a \$1.0 million decrease in brand marketing expenses and a \$373,000 decrease in trade and other marketing expenses.

Sales and marketing expenses for the year ended December 31, 2008 increased to \$43.3 million from \$40.5 million for the year ended December 31, 2007. The \$2.8 million increase in sales and marketing expense for the year ended December 31, 2008 compared to the year ended December 31, 2007 was primarily due to a \$3.1 million increase in salary and employee expenses and a \$936,000 increase in trade and other marketing expenses offset by a \$1.2 million decrease in brand marketing expenses.

The goal of our advertising campaigns is to acquire new subscribers for our e-mail products, increase the traffic to our Web sites, and increase brand awareness for *Travelzoo* and *Fly.com*. For the years ended

December 31, 2009, 2008, and 2007, advertising expenses accounted for 61%, 59%, and 67% respectively, of sales and marketing expenses. Advertising activities during these three year periods consisted primarily of online advertising.

Our goal is to increase our revenues from advertising sales. One important factor that drives our revenues is our advertising rates. We believe that we can increase our advertising rates only if the reach of our publications increases. In order to increase the reach of our publications, we have to acquire a significant number of new subscribers 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 subscriber. 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 subscriber acquisition efforts successfully, and the degree of competition in our industry.

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. The continuing build-up of our business in Europe is expected to result in a relatively high level of sales and marketing expense in the foreseeable future.

#### *General and Administrative*

General and administrative expenses consist primarily of compensation for administrative, executive, and software development staff, fees for professional services, rent, bad debt expense, amortization of intangible assets and general office expense. General and administrative expenses increased to \$24.9 million for the year ended December 31, 2009 from \$21.4 million for the year ended December 31, 2008. The \$3.6 million increase in general and administrative expenses was primarily due to a \$2.1 million increase in salary and employee related expenses, a \$686,000 increase in depreciation and amortization expense, and a \$137,000 increase in legal and professional services expense.

General and administrative expenses increased to \$21.4 million for the year ended December 31, 2008 from \$13.7 million for the year ended December 31, 2007. The \$7.6 million increase in general and administrative expenses for the year ended December 31, 2008 compared to the year ended December 31, 2007 was primarily due to a \$4.1 million increase in salary and employee related expenses, a \$1.7 million increase in rent and office expense, and a \$1.3 million increase in professional services expense.

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 general and administrative expenses to continue to increase.

Our strategy to replicate our business model in foreign markets is expected to result in a significant additional increase in our general and administrative expenses.

### ***Subscriber Acquisition***

The table set forth below provides for each quarter in 2007, 2008, and 2009, an analysis of our average cost for acquisition of new subscribers for our *Travelzoo Top 20* newsletter and our *Newsflash* e-mail alert service for our North America and Europe operating segments.

The table includes the following data:

§ *Average Cost per Acquisition of a New Subscriber:* This is the quarterly costs of consumer marketing programs whose purpose was primarily to acquire new subscribers, divided by total new subscribers added during the quarter.

§ *New Subscribers:* Total new subscribers who signed up for at least one of our e-mail publications throughout the quarter. This is an unduplicated subscriber number, meaning a subscriber who signed up for two or more of our publications is only counted once.

§ *Subscribers Removed From List:* Subscribers who were removed from our lists throughout the quarter either as a result of their requesting removal, or based on periodic list maintenance after we determined that the e-mail address was likely no longer valid.

§ *Balance:* This is the number of subscribers at the end of the quarter, computed by taking the previous quarter's subscriber balance, adding new subscribers during the current quarter, and subtracting subscribers removed from list during the current quarter.

North America:

<u>Period</u>	<b>Average Cost per Acquisition of a New Subscriber</b>	<b>New Subscribers</b>	<b>Subscribers Removed from List</b>	<b>Balance</b>
Q1 2007	\$ 2.61	730,063	(345,896)	10,611,505
Q2 2007	\$ 3.03	552,488	(335,304)	10,828,689
Q3 2007	\$ 3.92	385,408	(255,008)	10,959,089
Q4 2007	\$ 3.78	279,967	(242,822)	10,996,234
Q1 2008	\$ 4.97	296,565	(270,427)	11,022,372
Q2 2008	\$ 3.39	348,506	(303,623)	11,067,255
Q3 2008	\$ 3.73	360,916	(292,052)	11,136,119
Q4 2008	\$ 2.75	487,681	(341,057)	11,282,743
Q1 2009	\$ 2.29	720,320	(259,537)	11,743,526
Q2 2009	\$ 2.15	885,031	(277,439)	12,351,118
Q3 2009	\$ 1.80	1,076,367	(418,417)	13,009,068
Q4 2009	\$ 1.61	619,831	(380,626)	13,248,273

Europe:

<u>Period</u>	<b>Average Cost per Acquisition of a New Subscriber</b>	<b>New Subscribers</b>	<b>Subscribers Removed from List</b>	<b>Balance</b>
Q1 2007	\$ 3.89	159,439	(31,350)	783,379
Q2 2007	\$ 4.43	206,003	(39,690)	949,692



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Q3 2007	\$ 2.96	331,903	(32,689)	1,248,906
Q4 2007	\$ 5.85	165,781	(33,357)	1,381,330
Q1 2008	\$ 3.90	362,417	(45,152)	1,698,595
Q2 2008	\$ 4.89	226,156	(31,055)	1,893,696
Q3 2008	\$ 4.52	253,961	(38,418)	2,109,239
Q4 2008	\$ 3.32	160,172	(46,736)	2,222,675
Q1 2009	\$ 3.09	295,450	(40,542)	2,477,583
Q2 2009	\$ 2.74	408,026	(52,491)	2,833,118
Q3 2009	\$ 3.53	541,509	(99,396)	3,275,231
Q4 2009	\$ 3.97	443,280	(117,519)	3,600,992

In North America, we have noted a general trend of decreasing average cost per acquisition of a new subscriber ( CPA ) over the last five quarters after a period of increasing CPA. The recent quarterly decreases in CPA reflect the effects of new advertising campaigns and decreases in advertising rates by our media suppliers. We do not consider the decrease in CPA to be indicative of a longer-term trend or to indicate that our CPA is likely to stay at this level or is likely to decrease further.

In Europe, we see a large fluctuation in the CPA. The average cost fluctuates from quarter to quarter and from country to country. The decline in CPA in Europe in Q4 2008 reflects the change in the exchange

rates between Q3 2008 and Q4 2008 and accounted for \$0.51 of the decrease in the CPA. In Q4 2009, a higher proportion of the total subscribers we acquired were in Germany, where historically, the acquisition costs have been higher compared to the other countries in Europe. This was the primary reason for the increase in the CPA in Q4 2009 compared to Q3 2009.

Future increases in CPA are likely to result in higher absolute marketing expenses and potentially higher relative marketing expenses as a percentage of revenue. Going forward, we expect continued upward pressure on online advertising rates and continued activity from competitors, which will likely increase our CPA over the long term. The effect on operations is that greater absolute and relative marketing expenditure may be necessary to continue to grow the reach of our publications. However, it is possible that the factors driving subscriber acquisition cost increases can be partially or completely offset by new or improved methods of subscriber acquisition using techniques which are under evaluation.

### ***Segment Information***

We have presented the business segments based on our organizational structure as of December 31, 2009.

### ***North America***

	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>(In thousands)</b>		
Net revenues	\$ 77,967	\$ 71,339	\$ 73,232
Income from operations	19,227	21,118	28,959
Income from operations as % of revenues	25%	30%	40%

In North America, revenues increased \$6.6 million or 9% in the year ended December 31, 2009 compared to the year ended December 31, 2008 (see Revenues above). Income from operations for North America as a percentage of revenue in the year ended December 31, 2009 decreased by 5 percentage points compared to the prior year. This was primarily due to approximately 3 percentage point increase in cost of revenues as a percentage of revenue in the year ended December 31, 2009 compared to the prior year. Cost of revenues for North America increased by \$2.5 million to \$5.1 million for the year ended December 31, 2009 and was primarily due to a \$1.4 million increase in fees we paid related to user searches on *Fly.com*, an \$825,000 increase in depreciation and maintenance costs and a \$314,000 increase in payments made to third-party partners of the *Travelzoo Network*. Sales and marketing expenses increased to \$35.7 million for the year ended December 31, 2009 from \$31.9 million for the year ended December 31, 2008. This \$3.8 million decrease was primarily due to a \$2.0 million increase in marketing expenses for *Fly.com*, a \$1.3 million increase in advertising to acquire traffic to our Web sites, a \$1.3 million increase in salary and employee

related expenses, and a \$1.1 million increase in advertising to acquire new subscribers for our e-mail products offset by a \$1.0 million decrease in brand marketing expense and a \$627,000 decrease in trade and other marketing expenses. General and administrative expenses for North America increased to \$17.9 million for the year ended December 31, 2009 from \$15.7 million in the prior year. This \$2.2 million increase was primarily due to a \$799,000 increase in salary and employee related expenses, a \$645,000 increase in depreciation and amortization expense, and a \$379,000 increase in professional services expenses.

In North America, revenues decreased 3% in the year ended December 31, 2008 compared to the year ended December 31, 2007 (see Revenues above). Income from operations for North America as a percentage of revenue in the year ended December 31, 2008 decreased by 10 percentage points compared to the prior year. This was primarily due to an 8 percentage point increase in general and administrative expenses as a percentage of revenue in the year ended December 31, 2008 compared to the prior year. General and administrative expenses for North America increased to \$15.7 million for the year ended December 31, 2008 compared to \$10.5 million in the prior year. This \$5.2 million increase was primarily due to a \$3.3 million increase in salary and employee related expenses, a \$1.3 million increase in rent and

office expense, and a \$1.0 million increase in professional services expenses. Sales and marketing expenses decreased to \$31.9 million for the year ended December 31, 2008 from \$32.9 million for the year ended December 31, 2007. This \$1.0 million decrease was primarily due to a \$1.2 million decrease in brand marketing and a \$1.1 million decrease in advertising to acquire traffic to our Web sites offset by a \$1.2 million increase in salary expenses.

### *Europe*

	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>(In thousands)</b>		
Net revenues	\$ 16,339	\$ 9,623	\$ 5,856
Loss from operations	(5,463)	(7,809)	(5,172)
Loss from operations as % of revenues	33%	81%	88%

In Europe, revenues increased by \$6.7 million or 70% in the year ended December 31, 2009 compared to the year ended December 31, 2008 (see Revenues above). Our loss from operations in Europe was \$5.5 million in the year ended December 31, 2009 compared to \$7.8 million in the year ended December 31, 2008. The \$6.7 million increase in revenues was offset by a \$2.6 million increase in sales and marketing expenses and a \$1.5 million increase in general and administrative expenses. The \$2.6 million increase in sales and marketing expenses was due primarily to a \$1.5 million increase in advertising to acquire new subscribers for our e-mail products and a \$1.1 million increase in salary and employee related expenses offset by a \$437,000 decrease in advertising to acquire traffic to our Web sites. The \$1.5 million increase in general and administrative expenses was due primarily to a \$1.4 million increase in salary and employee related expenses. The strengthening of the U.S. dollar relative to the British Pound Sterling had a favorable impact on the loss from our operations in Europe. Had foreign exchange rates remained constant in these periods, the loss from our operations in Europe for the year ended December 31, 2009 would have been approximately \$177,000 higher.

In Europe, revenues increased by \$3.8 million or 64% in the year ended December 31, 2008 compared to the year ended December 31, 2007 (see Revenues above). Our loss from operations in Europe was \$7.8 million in the year ended December 31, 2008 compared to \$5.2 million in the year ended December 31, 2007. The \$3.8 million increase in revenues was offset by a \$3.7 million increase in sales and marketing expenses and a \$2.4 million increase in general and administrative expenses. The \$3.7 million increase in sales and marketing expenses was due primarily to a \$1.9 million increase in salary expense, a \$769,000 increase in advertising to acquire traffic to our Web sites, and a \$714,000 increase in advertising to acquire new subscribers for our e-mail products. The \$2.4 million increase in general and administrative expenses was due primarily to an \$873,000 increase in salary and employee related expenses, a \$444,000 increase in rent and office expenses, a \$375,000 increase in intercompany charges, and a \$302,000 increase in professional services expense.

### *Interest Income*

For the years ended December 31, 2009 and 2008, interest income consisted primarily of interest earned on cash, cash equivalents and restricted cash. For the year ended December 31, 2007, interest income consisted primarily of interest earned on cash and cash equivalents. Our interest income decreased to \$49,000 for the year ended December 31, 2009 from \$284,000 for the year ended December 31, 2008 due primarily to lower interest rates. Our interest income decreased to \$284,000 for the year ended December 31, 2008 from \$1.3 million for the year ended December 31, 2007 due primarily to lower interest rates and less cash and cash equivalents.

*Income Taxes*

For the year ended December 31, 2009, we recorded an income tax expense from continuing operations of \$7.3 million. For the years ended December 31, 2008 and 2007, we recorded income tax

expense from continuing operations of \$8.2 million and \$13.1 million, respectively. Our effective tax rates from continuing operations for 2009, 2008 and 2007 were 53%, 58% and 52%, respectively. For the years ended December 31, 2009 and December 31, 2008, we recorded reductions of \$39,000 and \$421,000 of income tax expense, respectively, related to the reversal of tax liabilities previously recorded for uncertain tax positions, respectively. Our income is generally taxed in the U.S. and our income tax provisions reflect federal and state statutory rates applicable to our levels of income, adjusted to take into account expenses that are treated as having no recognizable tax benefit. Our effective tax rate decreased in 2009 compared to 2008 due primarily to the decrease in losses from our Europe business segment which was treated as having no recognizable tax benefit. Our effective tax rate increased in 2008 compared to 2007 due primarily to the increase in losses from our Europe business segment which was treated as having no recognizable tax benefit.

We expect that our effective tax rate in future periods may fluctuate depending on the total amount of expenses representing payments to former stockholders, losses or gains incurred by our operations in Canada and Europe, and corresponding U.S. tax credits, if any.

During the year ended December 31, 2008, the Company realized tax benefits of \$110,000 upon the exercise of stock options by Ralph Bartel. The tax benefit reduced the Company's income tax payable and increased additional paid-in capital by this amount.

In January 2009, the Internal Revenue Service issued a Notice of Proposed Adjustment contesting the Company's tax deductions in 2005 and 2006 related to the program under which the Company made cash payments to people who established that they were former stockholders of Travelzoo.com Corporation, and who failed to submit requests to convert shares into Travelzoo Inc. within the required time period. The Company does not agree with the Notice of Proposed Adjustment and started discussions with the Appeals Division of the IRS in February 2010. If the Company were to agree with the Notice of Proposed Adjustment, the result would be an additional payment of approximately \$590,000, plus interest. The Company believes it has adequately provided for this matter in the balance of our long-term tax liabilities and it is not expected to have a material impact on the Company's results of operations.

### ***Discontinued Operations***

On October 31, 2009, we completed the sale of our Asia Pacific operating segment to Azzurro Capital Inc. and its wholly-owned subsidiaries, Travelzoo (Asia) Limited and Travelzoo Japan K.K. The results of operations of the Asia Pacific operating segment have been classified as discontinued operations for all periods presented. We received \$2.1 million, net of cash provided, and have a net receivable from Travelzoo (Asia) Limited and Travelzoo Japan K.K. of \$1.1 million. We realized a gain of \$3.4 million related to the sale of the net assets of the Asia Pacific business segment to Azzurro Capital Inc. The resulting gain on the sale is reflected as an addition to additional paid-in capital as both the Company and Azzurro Capital Inc. are under the common control of Ralph Bartel. We recorded a tax benefit of \$4.4 million in discontinued operations for the tax benefit associated with the loss on investments in the Asia Pacific subsidiaries as a result of their dissolution.

**Liquidity and Capital Resources**

As of December 31, 2009 we had \$19.8 million in cash and cash equivalents. Cash and cash equivalents increased from \$14.2 million on December 31, 2008 primarily as a result of cash provided by operating activities and financing activities as explained below. We expect that cash on hand will be sufficient to provide for working capital needs for at least the next 12 months.

	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>(In thousands)</b>		
Net cash provided by (used in) operating activities	\$ 5,125	\$ (3,325)	\$ 9,894
Net cash used in investing activities	(3,752)	(4,742)	(663)
Net cash provided by (used in) financing activities	4,219	185	(19,822)
Effect of exchange rate changes on cash and cash equivalents	5	(580)	(183)
Net increase (decrease) in cash and cash equivalents	\$ 5,597	\$ (8,462)	\$ (10,774)

Cash provided by or used in operating activities is net income or net loss adjusted for certain non-cash items and changes in assets and liabilities. Net cash provided by operating activities during the year ended December 31, 2009 increased by \$8.5 million compared to the year ended December 31, 2008. The increase in cash provided by operating activities was due primarily to a decrease in cash used in our operations in Europe and a decrease in cash used in our operations in Asia Pacific during the first 10 months of fiscal year ended December 31, 2009. As the international expansion started to generate more revenue in year ended December 31, 2009, net cash used in operating activities in Europe and Asia Pacific started to decrease compared to prior year. Net cash used in operating activities during the year ended December 31, 2008 increased by \$13.2 million compared to the year ended December 31, 2007. The increase in cash used in operating activities was due primarily to increases in cash used in our operations in Asia Pacific and Europe and a decrease in cash provided by our operations in North America.

Net cash used in investing activities was \$3.8 million for the year ended December 31, 2009 compared \$4.7 million for the year ended December 31, 2008. The \$1.0 million decrease in net cash used in investing activities was primarily due to a \$1.9 million decrease in purchases of property and equipment and an \$875,000 decrease in the purchase of restricted cash, offset by \$1.8 million of cash used to purchase the fly.com domain name. The \$1.9 million decrease in purchases of property and equipment was primarily due to decreases in capitalized internal-use software and Web site development costs associated with *Fly.com*. Net cash used in investing activities was \$4.7 million for the year ended December 31, 2008 compared to \$663,000 for the year ended December 31, 2007. The \$4.1 million increase in net cash used in investing activities was due primarily to a \$3.2 million increase in purchases of property and equipment during the year ended December 31, 2008 and \$875,000 used to purchase a certificate of deposit which is restricted because it serves as the collateral for a standby letter of credit for the security deposit of our corporate headquarters. The increase in purchases of property and equipment was due primarily to capitalized internal-use software and Web site development costs, leasehold improvements and office furniture purchased for new offices in North America, and computers and equipment purchased for a new data center.

Net cash provided by financing activities was \$4.2 million for the year ended December 31, 2009. Net cash provided by and used in financing activities was \$185,000 and \$19.8 million for the years ended December 31, 2008 and 2007, respectively. The net cash provided by financing activities in the year ended December 31, 2009 was from the cash received from the sale of our Asia Pacific business segment and the cash received from the exercise of stock options. The net cash provided by financing activities in the year ended December 31, 2008 was due to the exercise of stock options. The net cash used in the year ended December 31, 2007 was due to the repurchase of 1 million shares of common stock totaling \$19.8 million.

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 development of new products, cash payments to former stockholders of Travelzoo.com Corporation, expansion of our operations, and the amount of our resources we devote to promoting awareness of the *Travelzoo* brand. Since the inception of the program under which we would make cash payments to people who establish that they were former stockholders of Travelzoo.com Corporation, and who failed to submit requests to convert shares into Travelzoo Inc. within the required time period, we have incurred expenses of \$2.7 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 a substantial increase in our sales and marketing and general and



administrative expenses, and we anticipate that these increases will continue for the foreseeable future. We believe cash on hand will be sufficient to pay such costs. 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 12 months, unanticipated events or a less favorable than expected development of our business in Europe may require us to sell additional equity or debt securities or establish 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 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 in Europe is less favorable than expected, we may decide to significantly reduce the size of our operations and marketing expenses in these markets with the objective of reducing cash outflow. In the year ended December 31, 2009, cash used in operating activities in Europe was \$3.2 million.

On October 31, 2009, the Company completed the sale of its Asia Pacific operating segment to Azzurro Capital Inc. pursuant to the terms of the Asset Purchase Agreements. The results of operations of the Asia Pacific operating segment have been classified as discontinued operations for all periods presented. The Company will not have significant ongoing involvement with the operations of the Asia Pacific operating segment and will not have any economic interests in the Asia Pacific operating segment after the sale is completed. For 10 months ended October 31, 2009, cash used in operating activities in Asia Pacific was \$3.4 million. Further information concerning the transaction is provided in the Company's reports on Form 8-K filed on October 5 and November 3, 2009 and in Note 11 to the accompanying consolidated financial statements.

The following summarizes our principal contractual commitments as of December 31, 2009 (in thousands):

	2010	2011	2012	2013	2014	Total
Operating lease obligations	\$ 3,894	\$ 2,923	\$ 2,033	\$ 1,924	\$ 161	\$ 10,935
Purchase obligations	1,205					1,205
Total commitments	\$ 5,099	\$ 2,923	\$ 2,033	\$ 1,924	\$ 161	\$ 12,140

We also have contingencies related to net unrecognized tax benefits of approximately \$2.0 million as of December 31, 2009, which we are unable to make reasonably reliable estimates on the timing of the cash settlements with the respective taxing authorities.

## Growth Strategy

Our growth strategy has three main elements:

§ *International expansion:* We want to grow our revenue and operating profit through replicating the *Travelzoo* business in attractive international markets in Europe and in North America. We want to develop a strong competitive position through building a strong global brand and unique global content.

§ *Expand scope of Travelzoo business:* We want to grow our revenue and operating profit through expanding the *Travelzoo* product offerings and content into entertainment (e.g., Broadway shows, sporting events).

§ *Fly.com:* We want to grow revenue and operating profits through building up *Fly.com*, our new meta-search engine for airfares. We have identified meta-search as an opportunity with attractive economics and great synergies with *Travelzoo*.

We launched the *Travelzoo* business in the U.K. in 2005, in Canada in 2006, in Germany in 2006, in France in 2007, and in Spain in 2008. We began developing and offering entertainment content and related advertising services in 2008. We launched *Fly.com* in February 2009.

### **Recent Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued a new accounting standard which establishes a framework for measuring the fair value of assets and liabilities. This framework is intended to provide increased consistency in how fair value determinations are made under various existing accounting standards which permit, or in some cases require, estimates of fair market value. The new accounting standard became effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Effective January 1, 2009, we adopted a new FASB Staff Position ( FSP ) which delayed the effective date of fair value measurement for all non-financial assets and non-financial liabilities, except those recognized or disclosed at fair value in the financial statements on a recurring basis, until the beginning of the first quarter of fiscal 2009. The adoption of the new FASB staff position did not have a material impact on our consolidated results of operations or financial condition.

Effective January 1, 2009, we adopted a new FASB Staff Position relating to determination of the useful life of intangible assets, which amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets. This guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. Under this new FASB Staff Position, entities which estimate the useful life of a recognized intangible asset must consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension. The adoption of this standard did not have an impact on our consolidated results of operations or financial condition.

In April 2009, the FASB issued a new FASB staff position relating to interim disclosures about fair value of financial instruments, which require an entity to provide interim disclosures about the fair value of all financial instruments and to include disclosures related to the methods and significant assumptions used in estimating those instruments. This FSP was effective for interim and annual periods ending after June 15, 2009. The adoption of these pronouncements did not have a material impact on our consolidated results of operations or financial condition.

In May 2009, the FASB issued a new accounting standard relating to subsequent events, which is effective for interim and annual periods ending after June 15, 2009. This new accounting standard is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this new accounting standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements and the circumstances under which an entity should

recognize events or transactions occurring after the balance sheet date in its financial statements. Effective June 30, 2009, we adopted this new accounting standard. The adoption of this standard did not have a material impact on our consolidated results of operations or financial condition.

In June 2009, the FASB issued a new accounting standard that changes the consolidation model for variable interest entities, which is effective for interim and annual reporting periods beginning after November 15, 2009. Earlier adoption is prohibited. The new accounting standard requires a company to perform qualitative analysis when determining whether it must consolidate a variable interest entity and ongoing reassessments to determine if a company must consolidate a variable interest entity. The new accounting standard also requires a company to provide additional disclosures about its involvement with variable interest entities, any significant changes in risk exposure due to that involvement and how its involvement with a variable interest entity affects the company's financial statements. A company will also be required to disclose any significant judgments and assumptions made in determining whether it must

consolidate a variable interest entity. We are currently assessing the future impact of this new accounting standard on our consolidated results of operations and financial condition.

In June 2009, the FASB issued ASU 2009-01, Generally Accepted Accounting Principles (ASU 2009-01). ASU 2009-01 established The FASB Accounting Standards Codification, or Codification, which became the single source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. On the effective date, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. ASU 2009-01 is effective for interim and annual periods ending after September 15, 2009. We adopted the provisions of ASU 2009-01 for the period ended September 30, 2009. There was no material impact on our consolidated results of operations, financial condition or cash flows.

In August 2009, the FASB issued ASU 2009-05, a new accounting standard update regarding the measurement of liabilities at fair value. This standard update provides techniques to use in measuring fair value of a liability in circumstances in which a quoted price in an active market for the identical liability is not available. This standard update is effective prospectively for all interim and annual reporting periods upon issuance. Effective August 2009, we adopted this new accounting standard update. The adoption of this new accounting standard update did not have a material impact on our consolidated results of operations or financial condition.

In October 2009, the FASB issued ASU 2009-13, a new accounting standard update for revenue recognition with multiple deliverables. The new accounting standard update defines when individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. The update primarily provides two significant changes: 1) eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and 2) eliminates the residual method to allocate the arrangement consideration. In addition, the update also expands the disclosure requirements for revenue recognition. The new accounting standard update will be effective for us January 1, 2011, with early adoption permitted. We are currently assessing the future impact of this new accounting standard on our consolidated results of operations and financial condition.

In January 2010, the FASB issued ASU 2010-06, a new accounting standard which requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. The guidance is effective for annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures that are effective for annual periods beginning after December 15, 2010. We do not expect the adoption of this new accounting standard to have a material impact on our consolidated results of operations or financial condition.

**PART IV**

**Item 15.**        *Exhibits and Financial Statement Schedules*

The exhibits listed in the Exhibit Index at the end of this report are filed as Exhibits to this Amendment No. 1 on Form 10-K and are meant to supplement the Exhibits listed and/or filed in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

**SIGNATURES**

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

TRAVELZOO INC.

By: /s/ Wayne Lee

Wayne Lee

*Chief Financial Officer*

Date: May 6, 2010



**EXHIBIT INDEX**

**Exhibit  
Number**

**Description**

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

Filed herewith.

Furnished herewith.