TRAVELZOO
Form 10-K
March 11, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
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:
Common Stock, $0.01 Par Value
(Title of Class)
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
NONE

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

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer	x
Non-accelerated filer ¨	Smaller reporting company	x
	Emerging growth company	¨

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

As of June 30, 2018, 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 $98,522,556.

The number of shares of the Registrant's common stock outstanding as of February 21, 2019 was 11,865,402 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its 2019 Annual Meeting of Stockholders are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13, and 14.

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PART I

Forward-Looking Statements

The information in this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based upon current expectations, assumptions, estimates and projections about Travelzoo and our industry. These forward-looking statements are subject to the many risks and uncertainties that exist in our operations and business environment that may cause actual results, performance or achievements of Travelzoo to be different from those expected or anticipated in the forward-looking statements. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as “may”, “will”, “should”, “estimates”, “predicts”, “potential”, “continue”, “strategy”, “believes”, “anticipates”, “plans”, “expects”, “intends”, a expressions are intended to identify forward-looking statements. Travelzoo's actual results and the timing of certain events could differ significantly from those anticipated in such forward-looking statements. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those discussed elsewhere in this report in 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 7.5 million to 10.7 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 6.1 million times.

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. The 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, Alaska Airlines, British Airways, Cathay Pacific Airways, Ctrip, Emirates, Etihad, Fairmont Hotels and Resorts, Hawaiian Airlines, Hilton Hotels & Resorts, Hyatt Corporation, InterContinental Hotels Group, Lufthansa, Key Tours International, Princess Cruises, Royal Caribbean, Singapore Airlines, Starwood Hotels & Resorts 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
In April 2018, we entered into an agreement with WeekenGO, a start-up company in Germany. WeekenGO uses new technology to promote vacation packages. We invested $3.0 million in WeekenGO for a 25% ownership interest.

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, 2018, 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, 2018, Azzurro is the Company's largest stockholder, holding approximately 50.5% of the Company's outstanding shares.

As of December 31, 2018, there were 11,961,553 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 $8.3 trillion in value (10.4% of GDP) for the total global economy in 2017, and is expected to rise by 3.8% per year to $12.5 trillion (11.7% of GDP) in 2028. 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 spending is expected to grow 3% in 2019 and reach a total spending of $598 billion by the end of 2019. 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 spending. In addition, according to the Kelsey Group's (BIA/Kelsey) new U.S. Local Media Forecast 2018, BIA/Kelsey forecasts total local advertising spending to reach $162 billion in 2019. Digital advertising spending continues to increase its share of total local advertising spending, growing from $32 billion in 2014 to $64 billion in 2019. 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.

Growth of Mobile Advertising. Mobile advertising extends our products and services by providing mobile-specific features to mobile device users. As advertisers continue to shift budgets to mobile advertising, we continue to focus 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.

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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 website, 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 website	Website available 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	7.5 million to 10.7 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	152 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,	On-demand	6.1 million downloads	Allows travel, entertainment and local deals	24/7 access to travel, entertainment and

entertainment and local deals.		advertisers to reach our audience that is on the go.	local deals for consumers that are on the go.

* For the Travelzoo website, 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, 2018.

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 7.5 million to 10.7 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 6.1 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

The Travelzoo website, 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. The Travelzoo website 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, 2018, 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	Hyatt Corporation
Air New Zealand	InterContinental Hotels Group
Alaska Airlines	Lion World Travel
British Airways	Lufthansa
Cathay Pacific Airways	Nexus Holidays
Ctrip	Princess Cruises
Emirates	Royal Caribbean
Etihad	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, 2018, 2017 and 2016. The agreements with certain advertisers are in the form of multiple insertion orders and merchant agreements from groups of entities under common control.

In 2018, 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, 2018, our advertising sales force and sales support staff consisted of 150 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 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 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

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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. Additionally, the California Consumer Privacy Act was recently passed and creates new data privacy rights for users effective in 2020. 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, 2018, we had 422 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. The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below, any one or more of which could, directly or indirectly, cause the Company’s actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any or all of the risks listed below, as well as other variables affecting our operating results, in whole or in part, could materially and adversely affect our business 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, 2018, 2017 and 2016, we generated net income of $4.7 million, $3.5 million and $6.6 million, respectively. Although we were profitable in 2018, 2017 and 2016, 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;

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- 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 encourage our existing members to engage with our website and email products and to convert them to revenue-generating users;
- 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 or travel package products, 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 and our investment in packaging technology 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 and investing in packaging technology which may result in an increase in costs to further develop our product offerings 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 or our expanded travel product offerings, such as package offers, are not embraced by our users or our advertising partners, or if we are unsuccessful in our efforts to monetize these initiatives, our business and financial results could be adversely affected. To the extent that our room rates on our hotel booking platform or our package offers 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 or to our other travel product offerings 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 or investment in packaging technology and expansion of package offers 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 products include the sale of vouchers directly to consumers to advertise promotional offers 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 the hiring of additional sales force 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. The number of users we attract from search engines to our websites is due in large part to how and where information from, and links to, our websites are displayed on search engine results pages. The display, including rankings, of unpaid search results can be affected by a number of factors, many of which are not in our control and may change frequently. 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 also rely on application marketplaces, or app stores, to drive downloads of our applications. In the future, marketplace operators may make changes to their marketplaces that make access to our products more difficult.

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”).

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, earthquakes, fires, floods and volcanic activity. 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. From time to time, advertisers risk the closure of their business if they fail to pay their suppliers and can face regulatory issues (including losing their travel licenses), which can result in the cancellation of travel services booked by consumers through the advertiser. Advertisers who fail to fulfill the travel services advertised in the promotions ran by Travelzoo can negatively impact the reputation of Travelzoo, and advertisers that fail to pay Travelzoo for the advertisements can also negatively impact revenue growth. Moreover, any shortcomings of one or more of our advertisers or 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, 2018, our cash and cash equivalents decreased by $4.5 million to $18.0 million, of which $12.9 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. In addition, such incidents may also result in a decline in our active user base or engagement levels.

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 changed the way we account for certain of our sales transactions. We adopted this standard in the first quarter of 2018. The adoptions resulted in with a cumulative adjustment to retained earnings and changes in revenue recognition policies. We may need to change our accounting systems and processes if we are required to adopt future or proposed changes in accounting principles. 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 increased 5% in 2018 compared to 2017, and our operations in Asia generated an operating loss before tax of $6.3 million and $6.0 million in 2018 and 2017, respectively. Our revenues in Europe increased 7% in 2018 compared to 2017, and our operations in Europe generated an operating income before tax of $5.0 million and $2.3 million in 2018 and 2017, 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, such as those caused by the United Kingdom's withdrawal from the European Union, the slowing of growth in markets such as China and Brazil, and unrest in the Middle East;
- 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 withdrawal from the European Union, including the resulting impact on our business and that of our clients;
- trade barriers and changes in trade regulations, including new or increased tariffs;
- difficulties in developing, staffing and simultaneously managing foreign operations as a result of distance, language and cultural differences;
- stringent local labor laws and regulations;
- bans on travel from certain countries to the United States;
- risks related to government regulation, including changing policies in areas such as trade, travel, immigration, and healthcare, among others; 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 withdrawal from 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, $6.8 million and $8.0 million on online marketing initiatives relating to member acquisition for the years ended December 31, 2018, 2017 and 2016, respectively, and expect to continue to spend significant amounts to acquire additional members. Our long-term success depends on our continued ability to increase the overall number of members and engage those members throughout the travel planning, booking and trip-taking phases. We must continue to retain and acquire members and ensure that our members are engaged and converted into revenue-generating users 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 Middle East conflicts, terrorist attacks, mass shooting incidents and natural disasters, such as hurricanes, earthquakes, fires, floods and volcanic activity, 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 withdrawal the European Union could continue to 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 launched a new and simpler design for our website and are investing in packaging technology in both Europe and the United States to expand our products to include package offers. We cannot guarantee that the expanded product offerings will be embraced by our members. It may take us longer than expected to fully realize the anticipated benefits of the expanded product offerings, and those benefits may ultimately be smaller than anticipated, which could adversely affect our business. While we are striving to improve functionality, usability and design in our products, the recent enhancements on web and mobile and investment in packaging technology may not achieve the desired results we anticipate, and if unsuccessful, could result in a decline in revenues, an increase in costs, 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. Additionally, certain search engines have increased their focus on acquiring or launching flight and hotel search products. For example, Google has entered various aspects of the online travel market, including by establishing a flight metasearch product (“Google Flights”) and a hotel metasearch product (“Hotel Ads”) that are growing, as well as its “Book on Google” reservation functionality. We compete with travel metasearch engines like Kayak.com and online travel and entertainment deal publishers. We compete with large online travel agencies like Expedia and Booking Holdings 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 acquired Skyscanner and Priceline (now Booking Holdings) acquired Momondo. Expedia owns Travelocity, Orbitz, Hotels.com, Hotwire, Trivago, and HomeAway, among others. Booking Holdings owns Booking.com, Priceline.com, Agoda.com, Kayak.com, Cheapflights, Rentalcars.com, Momondo, and OpenTable, among others. The continued consolidation of the global travel market may impact our ability to compete in certain areas.
There has also been a proliferation of new channels through which accommodation providers can offer reservations. For example, companies such as Airbnb and HomeAway (which is owned by Expedia) offer services providing alternative accommodation property owners, particularly individuals, an online place to list their accommodations where travelers can search and book such properties and compete with our hotel booking platform and hotel offers. Further, meta-search services may lower the cost for new companies to enter the market by providing a distribution channel without the cost of promoting the new entrant's brand to drive consumers directly to its website. Some of our competitors and potential competitors offer a variety of online services, such as food delivery, shopping, gaming or search services, many of which are used by consumers more frequently than online travel services. As a result, a competitor or potential competitor that has established other, more frequent online interactions with consumers may be able to more easily or cost-effectively acquire customers for its online travel services than we can. If any of these services are successful in attracting consumers who would otherwise use our services, our customer acquisition costs, including our brand and performance marketing expenses, could increase and our business and results of operations would be harmed.

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 investments, goodwill and other assets acquired or divested.
- In the case of equity investments, the need to obtain financial and other information regarding the investee in order to properly account and report for the investment on an on-going basis.
- 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 21, 2019, the closing price of our common stock on the NASDAQ Global Select Market ranged from $6.18 to $20.60. 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; news reports relating to trends in our markets or general economic conditions; the level of demand for our stock, including the amount of short interest in our stock; stockholder collateral arrangements, and cash requirement on funds or stockholders that result in stockholder trades. There are several products offered in the market that allow stockholders to hedge stock, pledge their stock for collateral or engage in short selling, which can negatively impact the price of our stock. The Company does not prohibit stockholder hedging or pledging arrangements but does have strict policies against trading with material non-public information. 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, 2018, Azzurro is the Company's largest stockholder, holding approximately 50.5% 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. 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 record keeping 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. In June 2018, the U.S. Supreme Court decided the South Dakota v. Wayfair, Inc. sales tax nexus case. As a result of the Supreme Court ruling, states now have the ability to adopt laws requiring taxpayers to collect and remit sales tax on a basis of economic nexus, even in states in which the taxpayer has no presence. We are currently in the process of evaluating the future impact of the ruling on our financial position, results of operations and cash flows. 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. Outside parties may also attempt to takeover customer accounts by using passwords, usernames and other personal information obtained elsewhere to attempt to login to customer accounts on our websites. 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 and it is expected that these types of events will continue to occur. 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, the European Union has adopted the General Data Protection Regulation ("GDPR"), which went into effect in May 2018 and is designed to harmonize and enhance data privacy laws across Europe. The GDPR imposes requirements that are inconsistent with other laws currently in effect, yet regulators may claim that both apply. In the United Kingdom, a Data Protection Bill went into effect in May 2018, which substantially implements the GDPR in the United Kingdom. Additionally, the California Consumer Privacy Act was also recently passed and creates new data privacy rights for users effective in 2020. There are a number of proposals for data privacy laws pending or proposed in other jurisdictions, including at both the state and federal level of the United States. Complying with these varying national and international requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. In addition, compliance with these laws may restrict our ability to provide services to our customers that they may find to be valuable. 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 additional 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.

We post on our websites our privacy policies and practices concerning the collection, use and disclosure of user data. We may need to increase our security-related expenditures to maintain or increase our systems' security. 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 or consumer protection-related laws and regulations could result in proceedings or actions against us by governmental entities or others (e.g., class action privacy litigation), and subject us to significant penalties and negative publicity, require us to change our business practices, increase our costs and adversely affect our business. If Internet and mobile users were to reduce their use of our websites, mobile platforms, products, and services as a result of these privacy concerns, our business could be harmed. As noted above, we are also subject to the possibility of security breaches, which themselves may result in a violation of these laws.

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 and $2,000 for the years ended December 31, 2017 and 2016, respectively. The Company did not make any payment under this voluntary program in 2018.

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 vouchers 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

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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
2018:		
Fourth Quarter	$12.16	$7.43
Third Quarter	$20.60	$10.95
Second Quarter	$18.30	$6.70
First Quarter	$7.35	$6.00
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

On February 21, 2019, the last reported sales price of our common stock on the NASDAQ Global Select Market was $14.26 per share.

As of February 21, 2019, there were approximately 197 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 2018.

Repurchases of Equity Securities

We repurchased 283,000 shares of our equity securities during the three months ended December 31, 2018.

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, 2018 - October 31, 2018	133,344	$ 7.78	133,344	149,268
November 1, 2018 - November 30, 2018	149,268	$ 9.26	149,268	—
December 1, 2018 - December 31, 2018	—	$ —	—	—
	282,612		282,612	

(1) 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. During the year ended December 31, 2018, the Company repurchased 500,000 shares of common stock for $5.3 million. During the three months ended December 31, 2018, the Company repurchased 283,000 shares of common stock. In February 2019, the Company entered into a Stock Repurchase Agreement with Azzurro Capital Inc. ("Azzurro"), a majority shareholder of the Company and repurchased an aggregate of 100,000 shares of the Company's common stock for an aggregate purchase price of $1.5 million.

Performance Graph

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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, 2014, December 31, 2015, December 31, 2016, December 31, 2017, and December 31, 2018. The graph assumes that $100 was invested on December 31, 2013 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	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Travelzoo	$ 100	$ 59	$ 39	$ 44	$ 30	$ 46
NASDAQ Market Index	$ 100	$ 113	$ 120	$ 129	$ 166	$ 159
Russell 2000 Index	$ 100	$ 104	$ 98	$ 117	$ 132	$ 116

Item 6. Selected Consolidated Financial Data

The selected consolidated financial data set forth below for the years ended December 31, 2018, 2017 and 2016 are derived from our audited consolidated financial statements. The selected consolidated financial data set forth below for the years ended December 31, 2015 and 2014 represent unaudited consolidated financial statements presented on a basis consistent with those for years ended December 31, 2015 and 2014. 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 12 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,				
	2018	2017	2016	2015	2014
	(In thousands, except per share data)				
Revenues	$111,322	$106,524	$114,263	$123,961	$134,243
Income from operations	8,238	4,545	10,186	3,820	13,798
Income from continuing operations, net of taxes	4,661	1,592	6,007	8,523	10,323
Income from discontinued operations, net of taxes	—	1,938	624	2,341	2,739
Net income	$4,661	$3,530	$6,631	$10,864	$13,062
Income per share—basic:					
Continuing operations	$0.38	$0.12	$0.43	$0.58	$0.70
Discontinued operations	—	0.15	0.04	0.16	0.18
Net income per share	$0.38	$0.27	$0.47	$0.74	$0.88
Income per share—diluted:					
Continuing operations	$0.37	$0.12	$0.43	$0.58	$0.70
Discontinued operations	—	0.15	0.04	0.16	0.18
Net income (loss) per share	$0.37	$0.27	$0.47	$0.74	$0.88
Shares used in per share calculation from continuing operations—basic	12,323	12,882	13,997	14,722	14,768
Shares used in per share calculation from discontinued operations—basic	12,323	12,882	13,997	14,722	14,768
Shares used in per share calculation from continuing operations—diluted	12,510	12,894	13,997	14,722	14,809
Shares used in per share calculation from discontinuing operations—diluted	12,510	12,894	13,997	14,722	14,809

Consolidated Balance Sheet Data:

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(In thousands)				
Cash and cash equivalents	$18,017	$22,553	$26,838	$35,128	$55,417
Working capital	$6,356	$7,646	$14,643	$16,046	$36,259
Total assets	$43,424	$45,672	$53,530	$68,579	$93,307
Stockholders' equity	$14,059	$13,078	$18,064	$21,387	$35,827

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations
The information in this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based upon current expectations, assumptions, estimates and projections about Travelzoo and our industry. These forward-looking statements are subject to the many risks and uncertainties that exist in our operations and business environment that may cause actual results, performance or achievements of Travelzoo to be different from those expected or anticipated in the forward-looking statements. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as “may”, “will”, “should”, “estimates”, “predicts”, “potential”, “continue”, “strategy”, “believes”, “anticipates”, “plans”, “expects”, “intends”, a expressions are intended to identify forward-looking statements. Travelzoo’s actual results and the timing of certain events could differ significantly from those anticipated in such forward-looking statements. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those discussed elsewhere in this report in the section entitled “Risk Factors” and the risks discussed in our other SEC filings. The forward-looking statements included in this report reflect the beliefs of our management on the date of this report. Travelzoo undertakes no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other circumstances occur in the future.

Overview

Travelzoo® 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. The 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, Alaska Airlines, British Airways, Cathay Pacific Airways, Ctrip, Emirates, Etihad, Fairmont Hotels and Resorts, Hawaiian Airlines, Hilton Hotels & Resorts, Hyatt Corporation, InterContinental Hotels Group, Lion World Travel, Lufthansa, Nexus Holidays, Princess Cruises, Royal Caribbean, Singapore Airlines, Starwood Hotels & Resorts, 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 consolidated financial statement for further information.

In April 2018, we entered into an agreement with WeekenGO, a start-up company in Germany. WeekenGO uses new technology to promote vacation packages. We invested $3.0 million in WeekenGO for a 25% ownership interest. See "Note 1: Summary of Significant Accounting Policies" to the accompanying consolidated financial statements 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, 2018, 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, the 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 based upon estimates at the time of sale.

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 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 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 number 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 is also expected to increase due to our effort to develop our hotel booking platform. 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 a unique opportunity for a brand marketing campaign that will result in an increase of marketing expenses. In addition, there may be a significant number of members that cancel or we may cancel their subscription for various reasons, which may drive us to spend more on member acquisition in order to replace the lost members. Further, we expect to continue our strategy over time to replicate our business model in selected foreign markets to result in a significant increase in our sales and marketing expenses and have a material adverse impact on our results of operations. For example, in August of 2015 we acquired our Asia Pacific business, which we intend on increasing our investment in audience in this region. Due to the continued desire to grow our business in Asia Pacific, Europe and North America, we expect relatively high level of sales and marketing expenses in the foreseeable future. We expect fluctuations in sales and marketing expenses as a percentage of revenue from year to year and from quarter to quarter. Some of the fluctuations may be significant and have a material impact on our results of operations. We expect increased marketing expense to spur continued growth in members and revenue in future periods; however, we cannot be assured of this due to the many factors that impact our growth in members and revenue. We expect to adjust the level of such incremental spending during any given quarter based upon market conditions, as well as our performance in each quarter. We have increased and may continue to increase our spending on sales and marketing to increase the number of our members and address the growing audience from mobile and social media channels, as well as to increase our analytic capabilities to continuously improve the presentation of our offerings to our audience.

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

We do not know what our general and administrative expenses as a percentage of revenue will be in future periods. There may be fluctuations that have a material impact on our results of operations. We expect our headcount to continue to increase in the future. The Company’s headcount is one of the main drivers of general and administrative expenses. Therefore, we expect our absolute general and administrative expenses to continue to increase. We expect our continued expansion into foreign markets to result in an increase in our general and administrative expenses. We expect an increase in professional fees for various initiatives.

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

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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,		
	2018	2017	2016
Revenues	100.0 %	100.0 %	100.0 %
Cost of revenues	11.0	12.1	12.1
Gross profit	89.0	87.9	87.9
Operating expenses:			
Sales and marketing	52.6	53.8	51.1
Product development	8.1	8.6	8.0
General and administrative	20.9	21.2	19.9
Total operating expenses	81.6	83.6	79.0
Income from continuing operations	7.4	4.3	8.9
Other income (loss), net	—	0.1	(0.1)
Income from continuing operations before income taxes	7.4	4.4	8.8
Income tax expense	3.2	2.9	3.5
Income from continuing operations	4.2	1.5	5.3
Income from discontinued operations, net of income taxes	—	1.8	0.5
Net income	4.2 %	3.3 %	5.8 %

Operating Metrics

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

	Years Ended December 31,		
	2018	2017	2016
Asia Pacific			
Total members (1)	3,629,000	3,621,600	3,598,000
Average cost per acquisition of a new member	$0.38	$ 3.08	$ 3.28
Revenue per member (2)	$2.17	$ 2.09	$ 2.78
Revenue per employee (3)	$92	$ 86	$ 108
Mobile application downloads	774,000	728,300	662,000
Social media followers	598,000	559,000	531,000
Europe			
Total members (1)	8,762,000	8,523,300	8,153,000
Average cost per acquisition of a new member	$2.59	$ 2.89	$ 2.85
Revenue per member (2)	$4.24	$ 4.13	$ 4.69
Revenue per employee (3)	$244	$ 222	$ 249
Mobile application downloads	1,853,000	1,738,481	1,595,000
Social media followers	885,000	791,000	637,000
North America			
Total members (1)	17,469,000	17,075,600	17,223,000
Average cost per acquisition of a new member	$2.10	$ 1.87	$ 2.15
Revenue per member (2)	$3.87	$ 3.79	$ 3.94
Revenue per employee (3)	$356	$ 322	$ 332
Mobile application downloads	3,430,000	3,015,700	3,049,000
Social media followers	3,138,000	2,866,000	2,507,000
Consolidated			
Total members (1)	29,732,000	29,088,200	28,838,000
Average cost per acquisition of a new member	$2.16	$ 2.34	$ 2.51
Revenue per member (2)	$3.79	$ 3.69	$ 4.02
Revenue per employee (3)	$264	$ 241	$ 258
Mobile application downloads	6,057,000	5,482,481	5,306,000
Social media followers	4,621,000	4,216,000	3,675,000

(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,		
	2018	2017	2016
Asia Pacific			
Travel	$7,351	$6,992	$8,845
Local	508	527	853
Total Asia Pacific revenues	$7,859	$7,519	$9,698
Europe			
Travel	$30,856	$29,180	$31,087
Local	5,293	4,501	5,820
Total Europe revenues	$36,149	$33,681	$36,907
North America			
Travel	$56,145	$53,880	$54,248
Local	11,169	11,444	13,410
Total North America revenues	$67,314	$65,324	$67,658
Consolidated			
Travel	$94,352	$90,052	$94,180
Local	16,970	16,472	20,083
Total revenues	$111,322	$106,524	$114,263

Asia Pacific

Asia Pacific revenues increased $340,000 or 5% in 2018 compared to 2017. This increase was primarily due to the increase in Travel revenues, the decrease in Local revenues and a $24,000 negative impact from foreign currency movements relative to the U.S. dollar. The increase in Travel revenues of $371,000 was primarily due to a $750,000 increase of advertisements placements on our website, offset partially by a $316,000 decrease of number of e-mails sent. The decrease in Local revenues of $7,000 was primarily due to the decreased number of Local Deals vouchers sold.

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.

Europe

Europe revenues increased $2.5 million or 7% in 2018 compared to 2017. This increase was primarily due to the increase in Travel revenues, the increase in Local revenues and a $1.5 million positive impact from foreign currency movements relative to the U.S. dollar. The increase in Travel revenue of $345,000 was primarily due to the increased placements of advertisements on our website. The increase in Local revenues of $657,000 was primarily due to the increased number of Local Deals vouchers sold.

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.

North America

North America revenues increased $2.0 million or 3% in 2018 compared to 2017. This increase was primarily due to the increase in Travel revenues offset slightly by the decrease in Local revenue. The increase in Travel revenue of $2.3 million was primarily due to the increased number of emails sent. The decrease in Local revenues of $275,000 was primarily due to the decreased number of Local Deals vouchers sold.

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.

For 2018, 2017 and 2016, none of our customers accounted for 10% or more of our revenue.

Cost of Revenues

Cost of revenues consists primarily of network expenses, including fees we pay for co-location services and depreciation and maintenance of network equipment, payments made to third-party partners of the Travelzoo Network, amortization of capitalized website development costs, credit card fees, certain estimated refunds to members and customer service costs associated with vouchers we sell and hotel bookings, and salary expenses associated with network operations and customer service staff. Cost of revenues was $12.3 million, $12.9 million and $13.9 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Cost of revenue decreased $641,000 in 2018 compared to 2017. This decrease was primarily due to a $603,000 decrease in payments made to third-party partners of the Travelzoo Network.

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.

Operating Expenses

Sales and Marketing

Sales and marketing expenses consist primarily of advertising and promotional expenses, salary and related 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 $58.5 million, $57.3 million and $58.4 million for 2018, 2017 and 2016, respectively. Advertising expenses accounted for 14%, 15% and 18%, 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 increased $1.2 million in 2018 compared to 2017. The increase was primarily due to a $1.2 million increase in trade, commerce and brand marketing expenses and a $688,000 increase in salary, employee and contractor related expenses offset partially by a $659,000 decrease in member acquisition costs.

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 $415,000 decrease in salary and employee related expenses, offset partially by a $301,000 increase in facility costs and $285,000 increase in marketing costs.

Product Development

Product development expenses consist primarily of salary and related expenses for software development staff, fees for professional services, software maintenance and amortization and facilities costs. Product development expenses were $9.0 million, $9.2 million and $9.1 million for 2018, 2017 and 2016, respectively.

Product development expenses decreased $231,000 in 2018 compared to 2017. The decrease was primarily due to $204,000 decrease in salary and employee related expenses.

Product development expenses decreased $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.

General and Administrative

General and administrative expenses consist primarily of salary and related expenses for administrative and executive staff, fees for professional services, rent, bad debt expense, amortization of intangible assets, and general office expense. General and administrative expenses were $23.3 million, $22.6 million and $22.7 million for 2018, 2017 and 2016, respectively.

General and administrative expenses increased $746,000 in 2018 compared to 2017 primarily due to increase in salary and employee related expenses.

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.

Other Income (loss)

Other income (loss) consisted primarily of foreign exchange transactions gains and losses, our share of investment gains and losses and amortization of basis differences, interest income earned on cash, cash equivalents and restricted cash as well as interest expense. Other income (loss) was $48,000, $173,000 and ($187,000) for 2018, 2017 and 2016, respectively. Other income decreased $125,000 from 2017 to 2018 primarily due to our share of investment losses and amortization of basis differences from WeekenGO in 2018. Other income (loss) increased $360,000 from 2016 to 2017 primarily due to foreign exchange transaction gains in 2017.

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.

During the year ended December 31, 2018, we completed our accounting for the income tax effects of the Tax Act. We did not recognize any additional discrete net tax expense in addition to the provisional amounts recorded at December 31, 2017 for the enactment-date effects of the Tax Act, for a total of $508,000 of discrete net tax expense.

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 was $3.6 million, $3.1 million and $4.0 million for 2018, 2017 and 2016, respectively. Our effective tax rate was 44%, 66%, and 40% for 2018, 2017 and 2016, respectively. Our effective tax rate decreased for the year ended December 31, 2018 compared to the year ended December 31, 2017, primarily due to the change in the federal statutory tax rate from 35% to 21% in 2018 and the one-time charge related to the remeasurement of deferred tax assets at the end of 2017. 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. 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,		
	2018	2017	2016
	(In thousands)		
Revenues	$7,859	$7,519	$9,698
(Loss) from operations	$(6,322)	$(5,967)	$(3,890)
(Loss) from operations as a % of revenues	(80)%	(79)%	(40)%

Asia Pacific net revenues increased $340,000 in 2018 compared to 2017 (see "Revenues" above). Asia Pacific expenses increased $695,000 from 2017 to 2018. This increase was primarily due to a $458,000 increase of salary expense and a $246,000 increase in member management and maintenance costs.

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.

Foreign currency movements relative to the U.S. dollar positively impacted our local currency loss from our operations in Asia Pacific by approximately $127,000 and $35,000 for fiscal years 2018 and 2017, respectively. 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 for fiscal year 2016.

Europe

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Revenues	$36,149	$33,681	$36,907
Income from operations	$4,973	$2,290	$5,604
Income from operations as a % of revenues	14%	7%	15%

Europe net revenues increased $2.5 million in 2018 compared to 2017 (see "Revenues" above). Europe expenses decreased $215,000 from 2017 to 2018 primarily due to the decrease in depreciation expense.

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.

Foreign currency movements relative to the U.S. dollar negatively impacted our local currency income from our operations in Europe by approximately $181,000, $116,000 and $633,000 for 2018, 2017 and 2016, respectively.

North America

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Revenues	$67,314	$65,324	$67,658
Income from operations	$9,587	$8,222	$8,472
Income from operations as a % of revenues	14%	13%	13%

North America net revenues increased $2.0 million in 2018 compared to 2017 (see “Revenues” above). North America expenses increased $625,000 from 2017 to 2018 primarily due to the increase in trade, commerce and brand marketing expenses.

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 $786,000 decrease in member acquisition costs and a $637,000 decrease in payments made to third-party partners of the Travelzoo Network, offset partially by a $557,000 increase in customer refund in Local Deals and Getaway products.

Liquidity and Capital Resources

As of December 31, 2018, we had $18.0 million in cash and cash equivalents, of which $12.9 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 $22.6 million as of December 31, 2017 primarily as a result of cash used for repurchases of our common stock and our equity investment in WeekenGO. 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,		
	2018	2017	2016
	(In thousands)		
Net cash provided by operating activities	$5,317	$2,076	$8,722
Net cash provided by (used in) investing activities	(3,685)	2,152	(909)
Net cash used in financing activities	(5,292)	(9,712)	(15,262)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(880)	1,249	(876)
Net decrease in cash, cash equivalents and restricted cash	$(4,540)	$(4,235)	$(8,325)

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 $5.3 million for 2018, which consisted of a net income of $4.7 million, adjustments for non-cash items of $2.5 million, offset partially a $1.9 million decrease in cash from changes in operating assets and liabilities. Adjustments for non-cash items primarily consisted of a $1.8 million of depreciation and amortization expense on property and equipment and a $915,000 of stock-based compensation expense. The decrease in cash from changes in operating assets and liabilities primarily consisted of a $1.5 million increase in accounts receivable.

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.

Cash paid for income tax net of refunds received in 2018, 2017 and 2016 was $4.3 million, $6.2 million and $3.3 million, respectively.

Net cash used in investing activities for 2018 was $3.7 million. The cash used in investing activities in 2018 was primarily due to $3.1 million investment in WeekenGO and $752,000 in purchases of property and equipment, offset partially by $150,000 proceeds from sale of property and equipment. Net cash provided by investing activities for 2017 was $2.2 million. The cash provided by investing activities in 2017 was primarily due to $2.9 million proceeds from sale

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the Fly.com domain name, offset partially by $738,000 in purchases of property and equipment. Net cash used in investing activities for 2016 was $909,000 for purchases of property and equipment.

Net cash used in financing activities for 2018, 2017 and 2016 was $5.3 million, $9.7 million and $15.3 million, respectively. Net cash used in financing activities for the year ended December 31, 2018 and 2017 was primarily due to $5.3 million and $9.7 million cash used in repurchases of our common stock, respectively. 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.

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 voluntary 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 voluntary 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, 2018 (in thousands):

	Gross Operating Lease Commitments	Sublease Income	Net Operating Lease Commitments	Purchase Obligations	Total Commitments
2019	$ 5,492	$(339)	$ 5,153	$ 387	$ 5,540
2020	4,081	(344)	3,737	84	3,821
2021	3,195	(351)	2,844	—	2,844
2022	2,365	(357)	2,008	—	2,008
2023	2,066	(271)	1,795	—	1,795
Thereafter	1,187	—	1,187	—	1,187
Total	$ 18,386	$(1,662)	$ 16,724	$ 471	$ 17,195

We also have contingencies related to net unrecognized tax benefits, including interest, of approximately $425,000 as of December 31, 2018. 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

The Company recognizes revenues when control of the promised goods or services is transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

The Company generates revenues primarily by delivering advertising on the Travelzoo website, in the Top 20 email newsletter, in Newsflash and from the Travelzoo Network. The Company also generates transaction-based revenues from the sales of vouchers through our Local Deals and Getaway e-mail alert services and providing hotel bookings. The Company's disaggregated revenues are included in "Note 10: Segment Reporting and Significant Customer Information".

For fixed-fee website advertising, the Company recognizes revenues ratably over the contracted placement period.

For Top 20 email newsletter and other email products, the Company recognizes revenues when the emails are delivered to its members.

The Company offers advertising on a cost-per-click basis, which means that an advertiser pays the Company only when a user clicks on an ad on Travelzoo properties or Travelzoo Network members' properties. For these customers, the Company recognizes revenues each time a user clicks on the ad.

The Company also offers advertising on other bases, such as cost-per-impression, which means that an advertiser pays the Company based on the number of times their advertisement is displayed on Travelzoo properties, email advertisements, Travelzoo Network properties, or social media properties. For these customers, the Company recognizes revenues each time an ad is displayed or email delivered.

For transaction based revenues, including products such as Local Deals, Getaway and hotel platform, the Company evaluates whether it is the principal (i.e., report revenue on a gross basis) versus an agent (i.e., report revenue on a net basis). The Company reports transaction revenue on a net basis because the supplier is primarily responsible for providing the underlying service and we do not control the service provided by the supplier prior to its transfer to the customer.

For Local Deals and Getaway products, the company earns a fee for acting as an agent for the sale of vouchers that can be redeemed for services with third-party merchants. Revenues are presented net of the amounts due to the third-party merchants for fulfilling the underlying services. Certain merchant contracts allow the Company to retain the proceeds from unredeemed vouchers. With these contracts, the Company estimates the value of vouchers that will ultimately not be redeemed and records the estimate in the same period as the voucher sale.

Commission revenue related to our hotel platform is recognized ratably over the period of guest stay, net of an allowance for cancellations based upon historical patterns. For arrangements for booking non-cancelable reservations where the

Company's performance obligation is deemed to be the successful booking of a hotel reservation, we record revenue for the commissions upon completion of the hotel booking.

The Company's contracts with customers may include multiple performance obligations in which the Company allocates revenues to each performance obligation based on its standalone selling price. The Company determines standalone selling price based on its overall pricing objectives, taking into consideration the type of services, geographical region of the customers, normal rate card pricing and customary discounts. Standalone selling price is generally determined based on the prices charged to customers when the product is sold separately.

The Company relies upon the following practical expedients and exemptions allowed for in the revenue recognition accounting standard. The Company expenses sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded in sales and marketing expenses. In addition, the Company does not disclose the value of unsatisfied performance obligations for (a) contracts with an original expected length of one year or less and (b) contracts for which it recognizes revenues at the amount to which it has the right to invoice for services performed.

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.

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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, 2018, 2017 and 2016, our effective tax rates were 44%, 66%, and 40%, respectively. Our future effective tax rates could be materially impacted by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, changes in the deferred tax assets or liabilities, existing or new uncertain tax matters that may arise and require changes in tax reserves, changes in tax asset valuation allowance determinations, changes in our judgment about whether certain foreign earnings are indefinitely reinvested outside the U.S., or changes in tax laws, regulations, and accounting principles. In addition, we are subject to the continuous examination of our income tax returns by the IRS and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. See Note 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, 2018, 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, 2018. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in an incremental $1,000 foreign exchange gain for the year ended December 31, 2018.

Item 8. Financial Statements and Supplementary Data
TRAVELZOO
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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 (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, stockholders’ equity and cash flows for each of the three years in the period ended December 31, 2018, 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, 2018, 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, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 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, 2018, 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 revenues from contracts with customers in 2018.

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 8, 2019

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

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

	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,017	$ 22,553
Accounts receivable, less allowance for doubtful accounts of $692 and $315 as of December 31, 2018 and 2017, respectively	12,646	11,769
Income tax receivable	389	517
Deposits	167	259
Prepaid expenses and other	1,947	2,141
Total current assets	33,166	37,239
Deposits and other	685	548
Deferred tax assets	1,645	1,516
Restricted cash	1,444	1,448
Property and equipment, net	3,790	4,921
Investment in WeekenGO	2,694	—
Total assets	$ 43,424	$ 45,672
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 17,129	$ 19,105
Accrued expenses and other	7,853	8,702
Deferred revenue	1,339	825
Income tax payable	489	961
Total current liabilities	26,810	29,593
Long-term tax liabilities	418	373
Long-term deferred rent and other	2,137	2,628
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; 11,962 shares issued and outstanding as of December 31, 2018 and 12,462 shares issued and outstanding as of December 31, 2017)	120	125
Additional paid-in capital	—	—
Retained earnings	18,153	16,550
Accumulated other comprehensive loss	(4,214)	(3,597)
Total stockholders' equity	14,059	13,078
Total liabilities and stockholders' equity	$ 43,424	$ 45,672

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2018	2017	2016
Revenues	$111,322	$106,524	$114,263
Cost of revenues	12,268	12,909	13,855
Gross profit	99,054	93,615	100,408
Operating expenses:			
Sales and marketing	58,519	57,288	58,429
Product development	8,993	9,224	9,096
General and administrative	23,304	22,558	22,697
Total operating expenses	90,816	89,070	90,222
Income from continuing operations	8,238	4,545	10,186
Other income (loss), net	48	173	(187)
Income from continuing operations before income taxes	8,286	4,718	9,999
Income tax expense	3,625	3,126	3,992
Income from continuing operations	$4,661	$1,592	$6,007
Income from discontinued operations, net of income taxes	—	1,938	624
Net income	$4,661	$3,530	$6,631
Income per share—basic:			
Continuing operations	$0.38	$0.12	$0.43
Discontinued operations	—	0.15	0.04
Net income per share—basic	$0.38	$0.27	$0.47
Income per share—diluted:			
Continuing operations	$0.37	$0.12	$0.43
Discontinued operations	—	0.15	0.04
Net income per share—diluted	$0.37	$0.27	$0.47
Shares used in computing basic net income per share	12,323	12,882	13,997
Shares used in computing diluted net income per share	12,510	12,894	13,997

See accompanying notes to consolidated financial statements.

TRAVELZOO
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Year Ended December 31,		
	2018	2017	2016
Net income	$4,661	$3,530	$6,631
Other comprehensive income (loss):			
Foreign currency translation adjustment	(617)	190	121
Total comprehensive income	$4,044	$3,720	$6,752

See accompanying notes to consolidated financial statements.

TRAVELZOO
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balances, January 1, 2016	14,518	$ 150	$ —	$ 7,759	$ 17,386	$ (3,908)	$ 21,387
Stock-based compensation expense	—	—	—	933	—	—	933
Repurchase and retirement of common stock	(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	(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
Stock-based compensation expense	—	—	—	915	—	—	915
Repurchase and retirement of common stock	(500)	(5)	—	(915)	(4,372)	—	(5,292)
Foreign currency translation adjustment	—	—	—	—	—	(617)	(617)
Net income	—	—	—	—	4,661	—	4,661
Cumulative effect adjustment from the adoption of ASC 606	—	—	—	—	1,314	—	1,314
Balances, December 31, 2018	11,962	$ 120	$ —	$ —	$ 18,153	$ (4,214)	$ 14,059

See accompanying notes to consolidated financial statements.

TRAVELZOO
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	$4,661	$3,530	$6,631
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,828	2,075	2,530
Discontinued operations gain on sale of Fly.com domain name	—	(2,890)	—
Stock-based compensation	915	1,006	933
Deferred income tax	(336)	309	(199)
Loss on equity investment in WeekenGO	218	—	—
Net foreign currency effect	42	(354)	(315)
Other	(119)	118	100
Changes in operating assets and liabilities:			
Accounts receivable	(1,519)	3,065	1,313
Income tax receivable	129	28	816
Prepaid expenses and other	104	(487)	957
Accounts payable	(25)	(1,588)	(2,463)
Accrued expenses and other	—	(475)	(1,747)
Income tax payable	(392)	261	287
Other non-current liabilities	(189)	(2,522)	(121)
Net cash provided by operating activities	5,317	2,076	8,722
Cash flows from investing activities:			
Purchases of property and equipment	(752)	(738)	(909)
Proceeds from sale of Fly.com domain name	—	2,890	—
Proceeds from sale of property and equipment	150		
Investment in WeekenGO	(3,083)	—	—
Net cash provided by (used in) investing activities	(3,685)	2,152	(909)
Cash flows from financing activities:			
Acquisition of the Asia Pacific business	—	—	58
Payment of loan to related party	—	—	(5,658)
Repurchase of common stock	(5,292)	(9,712)	(9,662)
Net cash used in financing activities	(5,292)	(9,712)	(15,262)
Effect of exchange rate changes on cash and cash equivalents	(880)	1,249	(876)
Net decrease in cash, cash equivalents and restricted cash	(4,540)	(4,235)	(8,325)
Cash, cash equivalents and restricted cash at beginning of year	24,001	28,236	36,561
Cash, cash equivalents and restricted cash at end of year	$19,461	$24,001	$28,236
Supplemental disclosure of cash flow information:			
Cash paid for income taxes, net	$4,276	$6,201	$3,309
Cash paid for interest	$—	$—	$88

See accompanying notes to consolidated financial statements.

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TRAVELZOO
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. The 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, 2018, Azzurro is the Company's largest stockholder, holding approximately 50.5% 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 U.S. 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.
In April 2018, the Company entered into an agreement with WeekenGO, a start-up company in Germany. WeekenGO uses new technology to promote vacation packages. The Company invested $3.0 million in WeekenGO for a 25% ownership interest. The Company accounts for this private company investment using the equity method of accounting by recording its share of the results of WeekenGO in Other income (expense), net on a one-quarter lag basis. In accounting for the investment, the Company allocated $1.0 million of its purchase price to net tangible assets and allocated approximately $485,000 of the purchase to technology-related intangible assets to be amortized over a three-year life. The remaining $1.5 million of the purchase price was allocated to goodwill. The Company recorded $218,000 for its share of WeekenGO losses and amortization of basis differences in 2018. This equity investment is reported as a long-term investment on the Company's consolidated balance sheet.
WeekenGO signed a $2.1 million insertion order for advertising with the Company in 2018. The Company’s advertising revenues from WeekenGO in the year ended December 31, 2018 were $319,000.
(b) Revenue Recognition
The Company recognizes revenues when control of the promised goods or services is transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.
The Company generates revenues primarily by delivering advertising on the Travelzoo website, in the Top 20 email newsletter, in Newsflash and from the Travelzoo Network. The Company also generates transaction-based revenues from the sales of vouchers through our Local Deals and Getaway e-mail alert services and providing hotel bookings.

The Company's disaggregated revenues are included in "Note 10: Segment Reporting and Significant Customer Information".

For fixed-fee website advertising, the Company recognizes revenues ratably over the contracted placement period. For Top 20 email newsletter and other email products, the Company recognizes revenues when the emails are delivered to its members.
The Company offers advertising on a cost-per-click basis, which means that an advertiser pays the Company only when a user clicks on an ad on Travelzoo properties or Travelzoo Network members' properties. For these customers, the Company recognizes revenues each time a user clicks on the ad.
The Company also offers advertising on other bases, such as cost-per-impression, which means that an advertiser pays the Company based on the number of times their advertisement is displayed on Travelzoo properties, email advertisements, Travelzoo Network properties, or social media properties. For these customers, the Company recognizes revenues each time an ad is displayed or email delivered.
For transaction based revenues, including products such as Local Deals, Getaway and hotel platform, the Company evaluates whether it is the principal (i.e., report revenue on a gross basis) versus an agent (i.e., report revenue on a net basis). The Company reports transaction revenue on a net basis because the supplier is primarily responsible for providing the underlying service and we do not control the service provided by the supplier prior to its transfer to the customer.
For Local Deals and Getaway products, the company earns a fee for acting as an agent for the sale of vouchers that can be redeemed for services with third-party merchants. Revenues are presented net of the amounts due to the third-party merchants for fulfilling the underlying services. Certain merchant contracts allow the Company to retain the proceeds from unredeemed vouchers. With these contracts, the Company estimates the value of vouchers that will ultimately not be redeemed and records the estimate in the same period as the voucher sale.
Commission revenue related to our hotel platform is recognized ratably over the period of guest stay, net of an allowance for cancellations based upon historical patterns. For arrangements for booking non-cancelable reservations where the Company's performance obligation is deemed to be the successful booking of a hotel reservation, we record revenue for the commissions upon completion of the hotel booking.
The Company's contracts with customers may include multiple performance obligations in which the Company allocates revenues to each performance obligation based on its standalone selling price. The Company determines standalone selling price based on its overall pricing objectives, taking into consideration the type of services, geographical region of the customers, normal rate card pricing and customary discounts. Standalone selling price is generally determined based on the prices charged to customers when the product is sold separately.
The Company relies upon the following practical expedients and exemptions allowed for in the revenue recognition accounting standard. The Company expenses sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded in sales and marketing expenses. In addition, the Company does not disclose the value of unsatisfied performance obligations for (a) contracts with an original expected length of one year or less and (b) contracts for which it recognizes revenues at the amount to which it has the right to invoice for services performed.
(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

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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 $8.5 million, $8.6 million and $10.4 million for years ended December 31, 2018, 2017 and 2016, 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 $135,000 and $158,000 for 2018 and 2017, respectively, and total foreign currency transaction net losses of $211,000 for 2016, 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

Comprehensive income consists of two components, net income and other comprehensive income (loss). Other comprehensive income (loss) refers to certain changes in equity that are excluded from net income. 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, 2018 and 2017, the Company did not have any customers that accounted for 10% or more 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, 2018, 2017 and 2016.

(o) Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued an accounting standard update ASU 2016-02, "Leases," codified in Accounting Standard Codification 842 ("ASC 842"), 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. In July 2018, the FASB issued ASU No. 2018-10, "Codification Improvements to Topic 842, Leases" and ASU 2018-11, "Leases (Topic 842): Targeted Improvements." ASU No. 2018-10 made improvements to many aspects of the guidance in ASC 842. ASU 2018-11 made transition requirements less burdensome and provided lessors with a practical expedient for separating non-lease components from lease components. Entities may elect not to recast the comparative periods presented when transitioning to ASC 842. ASU No. 2018-10 has the same effective date and transition requirements as ASC 842. ASU No. 2018-11 has the same effective date as ASC 842 for companies that have not early adopted ASC 842. For companies that have early adopted ASC 842, it is effective upon issuance, but can only be adopted by companies either at the beginning of the company’s first reporting period after issuance or the company’s mandatory ASC 842 effective date. The Company expects to elect the transition package expedients and the optional transition method for adoption. The Company is still in the process of finalizing its evaluation of the effect of ASC 842 on the Company’s financial statements and disclosures. The Company will finalize its accounting assessment and quantitative impact of the adoption during the first quarter of fiscal year 2019.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act, eliminating the stranded tax effects resulting from the Tax Cuts and Jobs Act. However, the new guidance only applies to the tax effects resulting from the Tax Cuts and Jobs Act and does not change the underlying guidance to recognize the effect of a change in tax laws or rates in income from continuing operations. The amendments are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, 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 August 2018, the FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement." Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance also modifies certain disclosure requirements for nonpublic entities to make them less burdensome. ASU No. 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Company is currently in the process of evaluating the impact of the adoption on its financial position, results of operations and cash flows.

In August 2018, the FASB issued ASU No. 2018-15, "Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract." The new guidance required a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. The guidance is effective for calendar-year public business entities in 2020. For all other calendar-year entities, it is effective for annual periods beginning in 2021 and interim periods in 2022. Early adoption is 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.

(p) Recently Adopted Accounting Pronouncements

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. The Company adopted ASU 2016-15 and ASU 2016-18 using a retrospective transition method effective January 1, 2018 and applied to the periods presented on the consolidated statements of cash flows.

Restricted cash includes cash and cash equivalents that is restricted through legal contracts, regulations or our intention to use the cash for a specific purpose. Our restricted cash primarily relates to refundable deposits and funds held in escrow.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets to the total amounts shown in the statements of cash flows:

	December 31, 2018	December 31, 2017
Cash and cash equivalents	$ 18,017	$ 22,553
Restricted cash	1,444	1,448
Total cash, cash equivalents and restricted cash in the consolidated statements of cash flow	$ 19,461	$ 24,001

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 adopted this standard effective January 1, 2018 using the modified retrospective method, which was only applied to contracts that were not completed as of the adoption date, with a cumulative adjustment to retained earnings.

The cumulative effect of the revenue accounting changes made to the Company's consolidated balance sheet as of January 1, 2018 primarily consists of a decrease in accounts payable related to the merchant payable of $1.6 million and a decrease of $270,000 of net deferred tax assets for a net cumulative effect increase of retained earnings of $1.3 million. These changes were due primarily to the new revenue guidance requirement to recognize revenue related to unredeemed Local Deals and Getaway vouchers for selected deals, included in our Europe segment, based upon estimates at the time of sale of the vouchers rather than the Company's past practice of waiting to recognize this revenue until expiration of the legal obligation.

The changes in revenue recognition policies under the new revenue guidance were primarily the change described above for unredeemed vouchers as well as recognizing cancelable hotel platform commissions over the period of the hotel stay versus previously upon checkout; the impact of these changes to the Company's consolidated financial statements was not material for the year ended December 31, 2018.

Deferred revenue primarily consists of customer prepayments and undelivered performance obligations related to the Company’s contracts with multiple performance obligations. At January 1, 2018, $825,000 was recorded as deferred revenue. For the year ended December 31, 2018, the Company recognized revenue of $693,000 of the January 1, 2018 deferred revenue balance. At December 31, 2018, the deferred revenue balance was $1.3 million.

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,		
	2018	2017	2016
Numerator:			
Income from continuing operations	$4,661	$1,592	$6,007
Income from discontinued operations, net of income taxes	—	1,938	624
Net income	$4,661	$3,530	$6,631
Denominator:			
Weighted average common shares—basic	12,323	12,882	13,997
Effect of dilutive securities: stock options	187	12	—
Weighted average common shares—diluted	12,510	12,894	13,997
Income per share—basic:			
Continuing operations	$0.38	$0.12	$0.43
Discontinued operations	—	0.15	0.04
Net income per share—basic	$0.38	$0.27	$0.47
Income per share—diluted:			
Continuing operations	$0.37	$0.12	$0.43
Discontinued operations	—	0.15	0.04
Net income per share—diluted	$0.37	$0.27	$0.47

For the years ended December 31, 2018, 2017 and 2016, options to purchase 200,000, 550,000 and 600,000 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,	
	2018	2017
Prepaid expenses	$1,780	$1,859
Other current assets	167	282
Total prepaid expenses and other	$1,947	$2,141

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

	December 31,	
	2018	2017
Computer hardware and software	$3,353	$3,337
Office equipment and office furniture	7,814	8,002
Capitalized internal-use software and website development	4,383	4,383
Leasehold improvements	6,140	6,629
	21,690	22,351
Less accumulated depreciation and amortization	(17,900)	(17,430)
Total	$3,790	$4,921

Depreciation expense was $1.6 million, $1.8 million and $2.1 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Amortization of capitalized internal-use software and website development costs was $247,000, $321,000 and $460,000 for the years ended December 31, 2018, 2017 and 2016, 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, 2016	$ 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
Additions — charged to costs and expenses, or contra revenue, net	482	688
Deductions — recoveries of amounts previously charged-off	(104)	—
Deductions — write-offs	(1)	(839)
Balance at December 31, 2018	$ 692	$ 379

Local Deals and Getaway merchant payable included in accounts payable was $11.8 million and $14.6 million, as of December 31, 2018 and 2017, respectively.
Accrued expenses and other consist of the following (in thousands):

	December 31,	
	2018	2017
Accrued advertising expense	$1,875	$1,727
Accrued compensation expense	2,813	3,540
Reserve for member refunds	382	539
Other accrued expenses	2,266	2,396
Deferred rent	517	500
Total accrued expenses and other	$7,853	$8,702

At December 31, 2018 and 2017, 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 Company did not make any payments under this voluntary program for the year ended December 31, 2018. The accompanying consolidated financial statements include charges in general and administrative expenses of $1,000 and $2,000 for the years ended December 31, 2017 and 2016, respectively, for payments made under this voluntary program.

The total cost of this voluntary 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, the U.K., and the U.S. under operating leases which expire between March 2019 and November 2024. Rent expense was $5.8 million, $5.8 million and $5.3 million for years ended December 31, 2018, 2017 and 2016, 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. The Company’s rental income from sublease was approximately $123,000 for the year ended December 31, 2018.

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, 2018 (in thousands):

	Gross Operating Lease Commitments	Sublease Income	Net Operating Lease Commitments	Purchase Obligations	Total Commitments
2019	$ 5,492	$(339)	$ 5,153	$ 387	$ 5,540
2020	4,081	(344)	3,737	84	3,821
2021	3,195	(351)	2,844	—	2,844
2022	2,365	(357)	2,008	—	2,008
2023	2,066	(271)	1,795	—	1,795
Thereafter	1,187	—	1,187	—	1,187
Total	$ 18,386	$(1,662)	$ 16,724	$ 471	$ 17,195

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.

During the year ended December 31, 2018, we completed our accounting for the income tax effects of the Tax Act. We did not recognize any additional discrete net tax expense in addition to the provisional amounts recorded at December 31, 2017 for the enactment-date effects of the Tax Act, for a total of $508,000 of discrete net tax expense.

As of December 31, 2018, the Company is permanently reinvested in certain Non-U.S. subsidiaries and does not have a deferred tax liability related to its undistributed foreign earnings. 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 $498,000 at December 31, 2018.

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

	Year Ended December 31,		
	2018	2017	2016
U.S.	$8,677	$6,953	$7,525
Foreign	(391)	(2,235)	2,474
	$8,286	$4,718	$9,999

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, 2018			
Federal	$1,938	$ (260)	$1,678
State	650	22	672
Foreign	1,461	(186)	1,275
	$4,049	$ (424)	$3,625
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

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,		
	2018	2017	2016
Federal tax at statutory rates	$1,738	$1,651	$3,500
State taxes, net of federal income tax benefit	586	113	276
Change of valuation allowance	1,565	1,577	895
Uncertain tax positions	(177)	(907)	(132)
Foreign income taxed at different rates	(273)	72	(509)
U.S. tax reform (the Tax Act)	—	681	—
Tax on undistributed earnings	—	(173)	—
Non-deductible expenses and other	186	112	(38)
Total income tax expense	$3,625	$3,126	$3,992

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,	
	2018	2017
Deferred tax assets:		
Net operating loss carryforwards	$9,805	$9,250
State income taxes	82	65
Accruals and allowances	292	287
Stock based compensation	910	744
Unrealized foreign exchange losses	151	191
Deferred revenue	377	87
Deferred rent	—	418
Total deferred tax assets	11,617	11,042
Valuation allowance	(9,723)	(9,249)
Total deferred tax assets net of valuation allowance	1,894	1,793
Deferred tax liabilities:		
Deferred rent	(80)	—
Property, equipment and intangible assets	(169)	(277)
Total deferred tax liabilities	(249)	(277)
Net deferred tax assets	$1,645	$1,516

Changes in the deferred tax assets valuation allowance for the years ended December 31, 2016, 2017 and 2018 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				
2016	$ 6,940	895	(667)	$7,168
2017	$ 7,168	1,577	504	$9,249
2018	$ 9,249	1,565	(1,091)	$9,723

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

As of December 31, 2018, the Company has a valuation allowance of approximately $9.7 million related to foreign net operating loss carryforwards ("NOL") of approximately $40.6 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 $474,000 over the

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amount recorded as of December 31, 2017, and was due to the increase in foreign operating losses. If not utilized, foreign NOL of $24.0 million may be carried forward indefinitely, and foreign NOL of $16.5 million will expire at various times between 2019 and 2027.
The total amount of gross unrecognized tax benefits was $239,000 as of December 31, 2018, of which up to $213,000 would affect the Company's effective tax rate if realized. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits in 2016, 2017, and 2018 is as follows (in thousands):

Gross unrecognized tax benefits balance at January 1, 2016	$2,670
Increase related to prior year tax positions	10
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)
Gross unrecognized tax benefits balance at December 31, 2017	725
Increase related to current year tax positions	15
Settlements	(501)
Gross unrecognized tax benefits balance at December 31, 2018	$239

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, 2018, the Company had approximately $212,000 in accrued interest, of which $34,000 was a net increase in the amount accrued in 2018.
The Company files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Company is subject to U.S. federal and certain state tax examinations for certain years after 2011 and is subject to California tax examinations for years after 2006. 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 2010.
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,		
	2018	2017	2016
Beginning balance	$(3,597)	$(3,787)	$(3,908)
Other comprehensive income (loss) due to foreign currency translation, net of tax	(617)	190	121
Ending balance	$(4,214)	$(3,597)	$(3,787)

There were no amounts reclassified from accumulated other comprehensive income (loss) for the years ended December 31, 2018, 2017 and 2016. 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

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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, $2.0 million and $1.9 million for the years ended December 31, 2018, 2017 and 2016, 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, 2018, 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, 2018, 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. In 2018, 50,000 options were forfeited upon the departure of an executive and the compensation expense of $59,000 was reversed. As of December 31, 2018, 50,000 options were vested and outstanding.

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, 2018, 400,000 options were outstanding and 200,000 options of these options were vested. As of December 31, 2018, there was approximately $573,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 1.0 years.

In April 2018, the Company granted an employee stock options to purchase 50,000 shares of common stock with an exercise price of $10.50. The options vest in twelve equal installments. The first installment vested on April 26, 2018, and the remaining eleven installments vest from June 30, 2018 to December 31, 2020. As of December 31, 2018, 50,000 options were outstanding and 16,667 of these options were vested. As of December 31, 2018, there was approximately $161,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 2.0 years.

In May 2018, the Company granted an employee options to purchase 50,000 shares of common stock with an exercise price of $14.70, of which 12,500 options will vest and become exercisable annually starting on May 2019. As of December 31, 2018, 50,000 options were outstanding and none of these options was vested. As of December 31, 2018, there was approximately $302,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 3.4 years.

In June 2018, the Company granted a nonemployee consultant options to purchase 100,000 shares of common stock with an exercise price of $17.75, of which 20,000 options vested and became exercisable on June 8, 2018, 30,000 shares vest no later than July 31, 2018 if certain performance targets were met, and 50,000 shares vest no later than June 30, 2019 if certain performance targets are met. The Company used the contractual life when determining the value of this option. The performance targets for the 30,000 share options were not met by July 31, 2018 and the nonemployee consultant ceased to provide services to the Company. As a result, 80,000 unvested shares of options were forfeited and 20,000 vested options were canceled in 2018.

In June 2018, the Company granted an employee options to purchase 50,000 shares of common stock with an exercise price of $16.65, of which 12,500 options will vest and become exercisable annually starting on June 2019. As of December 31, 2018, 50,000 options were outstanding and none of these options was vested. As of December 31, 2018, there was approximately $352,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 3.5 years.

The Company recorded $915,000, $1.0 million and $933,000 of stock-based compensation in general and administrative expenses for fiscal years 2018, 2017 and 2016, respectively.

The Company utilized the Black-Scholes option pricing model to value the stock options. 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 2018, 2017 and 2016 stock options was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2018	2017	2016
Weighted-average fair value of options granted per share	$6.63	$3.11	$4.73
Historical volatility	46 %	46 %	58 %
Risk-free interest rate	2.84 %	2.06 %	1.38 %
Dividend yield	—	—	—
Expected life in years	5.70	5.65	6.25

As of December 31, 2018, there was approximately $815,000 of unrecognized stock-based compensation expense related to outstanding 2018 stock options, expected to be recognized over 2.9 years, and approximately $573,000 of unrecognized stock-based compensation expense related to outstanding 2017 stock options, expected to be recognized over 1.0 year. There was no unrecognized stock-based compensation expense relating to 2016 and 2012 stock options grants.

Option activities during the years ended December 31, 2016, 2017, and 2018 were as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2016	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	$ —
Option Granted	250,000	$ 15.47		
Options forfeited and canceled	(150,000)	$ 14.68	0	$ —
Outstanding at December 31, 2018	1,050,000	$ 9.50	7.53 years	$ 1,920
Exercisable and fully vested at December 31, 2018	716,667	$ 9.31	7.16 years	$ 1,344
Outstanding at December 31, 2018 and expected to vest thereafter	333,333	$ 9.92	8.31 years	$ 576

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, 2018, 2017 and 2016 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, 2018, 2017, and 2016. 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, 2018 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	3.07 years	$ 28.98	50,000	3.07 years
$8.07	400,000	6.75 years	$ 8.07	400,000	6.75 years
$8.55	50,000	7.19 years	$ 8.55	50,000	7.19 years
$6.95	400,000	8.84 years	$ 6.95	200,000	8.84 years
$10.50	50,000	9.32 years	$ 10.50	16,667	9.32 years
$14.70	50,000	9.37 years	$ 14.70	—	9.37 years
$16.65	50,000	4.47 years	$ 16.65	—	4.47 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 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. In addition, there were 56,000 shares remaining to be repurchased under previous repurchase programs. 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. During the year ended December 31, 2018, the Company repurchased 500,000 shares of common stock for an aggregate purchase price of $5.3 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 2019, the Company entered into a Stock Repurchase Agreement with Azzurro Capital Inc. (“Azzurro”), a majority shareholder of the Company and repurchased an aggregate of 100,000 shares of the Company’s common stock for an aggregate purchase price of $1.5 million.

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, 2018	Asia Pacific	Europe	North America	Other	Consolidated
Revenues from unaffiliated customers	$7,869	$36,468	$66,985	$ —	$ 111,322
Intersegment revenues	(10)	(319)	329	—	—
Total net revenues	$7,859	$36,149	$67,314	—	$ 111,322
Operating income (loss)	$(6,322)	$4,973	$9,587	$ —	$ 8,238

Year Ended December 31, 2017	Asia Pacific	Europe	North America	Other (a)	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

As of December 31, 2018	Asia Pacific	Europe	North America	Elimination	Consolidated
Long-lived assets	$145	$313	$3,332	$ —	$ 3,790
Total assets	$3,811	$62,942	$62,433		