UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

(Amendment No. 1)

(Mark One)

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from to .

Commission File No.: 000-50171

TRAVELZOO INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**36-4415727**
(State or other jurisdiction of	**(I.R.S. employer**
incorporation or organization)	**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

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

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

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

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

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

The number of shares of Travelzoo common stock outstanding as of August 1, 2012 was 15,961,553 shares.

Table of Contents

Explanatory Note

Travelzoo Inc. (the Company) is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the period ended June 30, 2012, originally filed with the Securities and Exchange Commission on July 30, 2012, to correct certain information in the financial statements and other financial tables included in Part I Item 1. Due to an administrative error, an obsolete version of such information was included in the original filing. The financial information, as corrected, is consistent with and agrees to the financial information originally included in the Company s earnings release that was issued on July 19, 2012 and furnished to the Securities and Exchange Commission on July 23, 2012. In addition, the financial information, as corrected, is consistent with and agrees to the financial information originally included in the Company s separately filed XBRL document filed with the Securities and Exchange Commission on July 30, 2012.

Table of Contents

TRAVELZOO INC.

Table of Contents

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. *Financial Statements*

TRAVELZOO INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 54,161	$ 38,744
Accounts receivable, less allowance for doubtful accounts of $459 and $400 as of June 30, 2012 and December 31, 2011, respectively	15,236	13,340
Income tax receivable	2,493	3,625
Deposits	376	278
Prepaid expenses and other current assets	2,601	2,123
Deferred tax assets	1,755	1,754
Total current assets	76,622	59,864
Deposits, less current portion	1,038	776
Deferred tax assets, less current portion	344	344
Restricted cash	3,045	3,103
Property and equipment, net	3,711	3,557
Intangible assets, net	528	704
Total assets	$ 85,288	$ 68,348
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 22,129	$ 21,731
Accrued expenses	11,606	6,311
Deferred revenue	2,108	2,168
Income tax payable		279
Deferred rent	217	114
Total current liabilities	36,060	30,603
Long-term tax liabilities	2,001	2,225
Deferred rent, less current portion	929	761
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; 16,462 shares issued and 15,962 shares outstanding as of June 30, 2012 and December 31, 2011)	164	164
Treasury stock (at cost, 0 and 500 shares at June 30, 2012 and December 31, 2011)		(15,123)

Additional paid-in capital		8,249		7,656
Retained earnings		39,369		43,484
Accumulated other comprehensive loss		(1,484)		(1,422)
Total stockholders equity		46,298		34,759
Total liabilities and stockholders equity	$	85,288	$	68,348

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

TRAVELZOO INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenues	$ 39,360	$ 37,565	$ 78,693	$ 74,525
Cost of revenues	3,630	2,940	7,683	5,382
Gross profit	35,730	34,625	71,010	69,143
Operating expenses:				
Sales and marketing	16,061	18,702	32,326	34,833
General and administrative	9,303	8,295	18,747	16,689
Unexchanged merger shares			3,000	20,000
Total operating expenses	25,364	26,997	54,073	71,522
Income (loss) from operations	10,366	7,628	16,937	(2,379)
Other income (expense)	(16)	42	83	104
Income (loss) before income taxes	10,350	7,670	17,020	(2,275)
Income taxes	3,090	2,752	6,012	6,762
Net income (loss)	$ 7,260	$ 4,918	$ 11,008	$ (9,037)
Basic net income (loss) per share	$ 0.45	$ 0.30	$ 0.69	$ (0.55)
Diluted net income (loss) per share	$ 0.45	$ 0.30	$ 0.69	$ (0.55)
Shares used in computing basic net income (loss) per share	15,962	16,462	15,962	16,456
Shares used in computing diluted net income (loss) per share	16,006	16,585	16,012	16,456

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

TRAVELZOO INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30 2012	Six Months Ended June 30 2011
Net income (loss)	$ 7,260	$ 4,918	$ 11,008	$ (9,037)
Other Comprehensive Income (loss):				
Foreign currency translation adjustment	(569)	(18)	(62)	204
Total comprehensive income (loss)	$ 6,691	$ 4,900	$ 10,946	$ (8,833)

6

Table of Contents

TRAVELZOO INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30, 2012	2011
Cash flows from operating activities:		
Net income (loss)	$ 11,008	$ (9,037)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,225	1,309
Deferred income tax		160
Stock-based compensation	593	375
Provision for losses on accounts receivable	199	43
Tax benefit of stock option exercise		(268)
Net foreign currency effect	40	(29)
Changes in operating assets and liabilities:		
Accounts receivable	(2,122)	(2,456)
Deposits	(364)	(660)
Income tax receivable	1,130	(2,390)
Prepaid expenses and other current assets	(79)	(117)
Accounts payable	508	5,600
Accrued expenses	5,302	7,185
Deferred revenue	(60)	98
Deferred rent	(34)	95
Income tax payable	(283)	(519)
Other non-current liabilities	(224)	29
Net cash provided by (used in) operating activities	16,839	(582)
Cash flows from investing activities:		
Purchases of property and equipment	(1,272)	(1,056)
Net cash used in investing activities	(1,272)	(1,056)
Cash flows from financing activities:		
Proceeds from exercise of stock options		40
Tax benefit of stock option exercise		268
Net cash provided by financing activities		308
Effect of exchange rate changes on cash and cash equivalents	(150)	232
Net increase (decrease) in cash and cash equivalents	15,417	(1,098)
Cash and cash equivalents at beginning of period	38,744	41,184
Cash and cash equivalents at end of period	$ 54,161	$ 40,086
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net	$ 5,391	$ 9,476

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

TRAVELZOO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: The Company and Basis of Presentation

Travelzoo Inc. (the Company or Travelzoo) is a global Internet media company. We inform over 25 million subscribers in North America, Europe and Asia Pacific, as well as millions of website users, about the best travel, entertainment and local deals available from thousands of companies. Our deal experts source, research and test-book offers, recommending only those that meet Travelzoo s rigorous quality standards. We provide travel companies, entertainment companies, and local businesses with a fast, flexible, and cost effective way to reach millions of consumers. Our revenues are generated primarily from advertising fees. In Asia Pacific, the *Travelzoo* business is operated by Travelzoo (Asia) Ltd. and Travelzoo Japan K.K. under a license agreement with Travelzoo Inc.

Our publications and products include the *Travelzoo* websites (www.travelzoo.com, www.travelzoo.ca, www.travelzoo.co.uk, www.travelzoo.de, www.travelzoo.es, www.travelzoo.fr, among others), the *Travelzoo Top 20* e-mail newsletter, the *Newsflash* e-mail alert service, the *SuperSearch* pay-per-click travel search tool, and the *Travelzoo Network*, a network of third-party websites that list travel deals published by Travelzoo. We also operate *Fly.com*, a travel search engine that allows users to quickly and easily find the best prices on flights from hundreds of airlines and online travel agencies. Recently, we launched *Local Deals and Getaways*, new services that allow our subscribers to purchase vouchers for deals from local businesses such as spas, hotels and restaurants through the *Travelzoo* website. Vouchers are redeemable at the local businesses during the promotional period. We receive a percentage of the face value of the voucher from the local businesses.

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

Travelzoo is controlled by Ralph Bartel, who held beneficially approximately 53.3% of the outstanding shares as of July 27, 2012.

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company, and its results of operations and cash flows. These condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and related notes as of and for the year ended December 31, 2011, included in the Company s Form 10-K filed with the SEC on February 21, 2012.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. All foreign subsidiaries use the local currency of their respective countries as their functional currency. Assets and liabilities are translated into U.S. dollars at exchange rates prevailing at the balance sheet dates. Revenues, costs and expenses are translated into U.S. dollars at average exchange rates for the period.

The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 or any other future period, and the Company makes no representations related thereto.

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

8

Table of Contents

In April 2002, Travelzoo.com Corporation was merged into Travelzoo Inc. Under and subject to the terms of the merger agreement, holders of promotional shares of Travelzoo.com Corporation (Netsurfers) who established that they had satisfied certain prerequisite qualifications were allowed a period of two years following the effective date of the merger to receive one share of Travelzoo Inc. in exchange for each share of common stock of Travelzoo.com Corporation. The records of Travelzoo.com Corporation showed that, assuming all of the shares applied for by the Netsurfer stockholders were validly issued, there were 11,295,874 shares of Travelzoo.com Corporation outstanding. As of April 25, 2004, two years following the effective date of the merger, 7,180,342 shares of Travelzoo.com Corporation had been exchanged for shares of Travelzoo Inc. Prior to that date, the remaining shares were also included in the issued and outstanding common stock of Travelzoo Inc. and included in the calculation of basic and diluted earnings per share. After April 25, 2004, the Company ceased issuing shares to the former stockholders of Travelzoo.com Corporation, and no additional shares are reserved for issuance to any former stockholders, because their right to receive shares has now expired. On April 25, 2004, the number of shares reported as outstanding was reduced from 19,425,147 to 15,309,615 to reflect actual shares issued as of the expiration date. Earnings per share calculations reflect this reduction of the number of shares reported as outstanding. As of June 30, 2012, there were 15,961,553 shares of common stock outstanding.

On April 21, 2011, the Company entered into an agreement with the State of Delaware resolving all claims relating to an unclaimed property review which began in 2010. The primary issue raised in the preliminary findings from the review, received by the Company on April 12, 2011, concerned the shares of Travelzoo which have not been claimed by former Netsurfer stockholders of Travelzoo.com as discussed in the preceding paragraph. In the preliminary findings under the unclaimed property review, up to 3.0 million shares were identified as demandable under Delaware escheat laws. While the Company continues to take the position that such shares were a promotional incentive and were issuable only to persons who establish their eligibility as stockholders, the Company determined that it was in its best interest to promptly resolve all claims relating to the unclaimed property review. The Company made a $20.0 million cash payment to the State of Delaware on April 27, 2011 and received a complete release of those claims.

During March 2012, the Company became subject to unclaimed property reviews by most of the other states in the U.S. The auditing firm representing these States in the reviews has presented to the Company preliminary findings which relate primarily to the unexchanged merger shares that were not covered by the settlement and release by the State of Delaware. During the three months ended March 31, 2012, the Company recorded a $3.0 million charge related to this unexchanged merger shares contingency. While the Company believes it has meritorious defenses regarding the applicability of escheat rights related to this unexchanged merger shares contingency, the ultimate resolution of this matter may take longer than one year to resolve. If the claims for all of the additional shares referred to in the preliminary findings were upheld in full, based on the closing price of the Company s shares at the end of June 2012, the cost to the Company would be approximately $22.2 million in excess of the amount accrued, plus any interest or penalty which might be applicable. However, the Company is not able to predict the ultimate amount or outcome of any current or future claims which have been or might be asserted relating to the unissued shares.

The Company intends to continue to challenge the applicability of escheat rights, in that, among other reasons, the shares of the predecessor Bahamas corporation were offered for free as part of a promotional incentive program to qualified individuals. There were certain conditions applicable to the issuance of shares to the Netsurfer stockholders, including requirements that (i) they be at least 18 years of age, (ii) they be residents of the U.S. or Canada, and (iii) they not apply for shares more than once. The Netsurfer stockholders were advised that failure to comply could result in cancellation of their shares in Travelzoo.com Corporation. Travelzoo.com Corporation was not able to verify that the applicants met the requirements referred to above at the time of their applications for issuance of shares, and the remaining Netsurfer stockholders who have not qualified to receive shares in the Company, or who have not participated in the cash payments program referred to below, have not demonstrated their actual compliance with the conditions to the issuance of shares by Travelzoo.com Corporation. 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 response to the pending reviews referred to above, and in response to other persons claiming to be former stockholders of Travelzoo.com Corporation, the Company intends to assert that the claimant must establish that the original Netsurfer stockholders complied with the conditions to issuance of their shares.

The Company is continuing its program under which it makes cash payments to people who establish that they satisfy the conditions to receive shares of Travelzoo.com Corporation, and who failed to submit requests to convert their shares into shares of Travelzoo Inc. within the required time period. The accompanying condensed consolidated financial statements include a charge in general and administrative expenses of $11,000 and $22,000 for these cash payments for the three months and six months ended June 30, 2012. The total cost of this program is not reliably estimable because it is based on the

Table of Contents

ultimate number of valid requests received and future levels of the Company s common stock price, and would be affected by any settlement of the pending reviews referred to above. 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. As noted above, in order to receive payment under the program, a person is required to establish that such person validly held shares in Travelzoo.com Corporation.

In July 2012, the Company announced a stock repurchase program authorizing the repurchase of up to 1,000,000 shares of the Company s outstanding common stock.

Note 2: Net Income (Loss) Per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Basic net income (loss) per share:				
Net income (loss)	$ 7,260	$ 4,918	$ 11,008	$ (9,037)
Weighted average common shares	15,962	16,462	15,962	16,456
Basic net income (loss) per share	$ 0.45	$ 0.30	$ 0.69	$ (0.55)
Diluted net income (loss) per share:				
Net income (loss)	$ 7,260	$ 4,918	$ 11,008	$ (9,037)
Weighted average common shares	15,962	16,462	15,962	16,456
Effect of dilutive securities: stock options	44	123	50	
Diluted weighted average common shares	16,006	16,585	16,012	16,456
Diluted net income (loss) per share	$ 0.45	$ 0.30	$ 0.69	$ (0.55)

For the three months ended June 30, 2012, options to purchase 100,000 shares of common stock were not included in the computation of diluted net income per share because the effect would have been anti-dilutive. For the three months ended June 30, 2011, all outstanding options were included in the computation of diluted net income per share.

For the six months ended June 30, 2012, options to purchase 100,000 shares of common stock were not included in the computation of diluted net income per share because the effect would have been anti-dilutive. For the six months ended June 30, 2011, options to purchase 300,000 shares of common stock were not included in the computation of diluted net income (loss) per share because the effect would have been anti-dilutive.

Table of Contents

Note 3: Financial Instruments

At June 30, 2012, restricted cash consisted primarily of a certificate of deposit for $875,000 serving as collateral for a standby letter of credit for the security deposit under the lease of our corporate headquarters and a $2.2 million deposit with our bank in the U.K. for our merchant account. Cash equivalents consist of highly liquid investments with remaining maturities of three months or less on the date of purchase held in money market funds. The Company believes that the carrying amounts of these financial assets are a reasonable estimate of their fair value and are categorized as level 1. The fair value of these financial assets was determined using the following inputs at June 30, 2012 and December 31, 2011(in thousands):

		Fair Value Measurements at Reporting Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Balance at June 30, 2012				
Money market funds	$ 10,635	$ 10,635	$	$
Total	$ 10,635	$ 10,635	$	$
Balance at December 31, 2011				
Money market funds	$ 5,665	$ 5,665	$	$
Total	$ 5,665	$ 5,665	$	$

At June 30, 2012, cash, accounts receivable and accounts payable are not measured at fair value; however, the Company believes that the carrying amounts of these assets and liabilities are a reasonable estimate of their fair value. Cash is categorized as Level 1 and accounts receivable and accounts payable are categorized as Level 2.

There have been no changes in Level 1, Level 2 and Level 3 and no changes in valuation techniques for these assets or liabilities for the period ended June 30, 2012.

Note 4: Intangible Assets

Intangible assets consist of the following (in thousands):

	June 30, 2012	December 31, 2011
Internet domain names	$ 2,117	$ 2,117
Less accumulated amortization	1,589	1,413
Total	$ 528	$ 704

Intangible assets have a useful life of 5 years. For the three months ended June 30, 2012 and 2011, amortization expense was $88,000 for each period. For the six months ended June 30, 2012 and 2011, amortization expense was $176,000 for each period.

Future expected amortization expense related to intangible assets at June 30, 2012 is as follows (in thousands):

2012	178
2013	350
Total	$ 528

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

11

Table of Contents

Note 5: Commitments and Contingencies

Beginning on August 9, 2011, two purported class action lawsuits were commenced in the United States District Court for the Southern District of New York. On January 6, 2012, a Consolidated and Amended Class Action Complaint was filed. The complaint asserts claims under Section 10(b) and 20(a) pursuant to the Securities Exchange Act of 1934 (Exchange Act) alleging that between March 16, 2011 and July 21, 2011, the Company and/or the individual defendants purportedly issued materially false and misleading statements. In particular, the complaint asserts, among other things, allegations challenging certain statements relating to the Company s growth. The complaint also makes allegations regarding the Company s *Getaways* business and asserts that certain officers and directors sold stock while in possession of materially adverse non-public information. The action seeks unspecified damages and we are unable to estimate the possible loss or range of losses that could potentially result from the action. The Company believes that the action is without merit and intends to defend the suits vigorously.

In addition, five shareholder derivative lawsuits, *Wang v. Bartel, et al., Wirth v. Bartel, et al., Kitt v. Bartel, et al., Blatt v. Bartel, et al.*, and *Turansky v. Bartel, et al*., were filed in the Southern District of New York based on similar allegations that seek to assert claims under state law derivatively on behalf of Travelzoo against certain officers and directors of the Company. These derivatives actions were consolidated and on January 6, 2012, a Verified Consolidated Shareholder Derivative Complaint was filed purportedly on behalf of nominal defendant Travelzoo. The complaint asserts claims for breaches of fiduciary duties, unjust enrichment, abuse of control and gross mismanagement against current and former directors and officers of the Company. The complaint also asserts a breach of fiduciary duty claim for insider trading against certain officers and directors, as well as Azzurro Capital, Inc. The derivative action makes allegations regarding the Company s *Getaways* business and asserts that certain officers and directors sold stock while in possession of materially adverse non-public information.

On January 27, 2012, a purported shareholder of Travelzoo commenced a suit in the Supreme Court of New York that allegedly asserts claims derivatively on behalf of Travelzoo Inc. for breaches of fiduciary duty against Travelzoo s board of directors. The complaint also asserts claims for breaches of fiduciary duty and unjust enrichment against Ralph Bartel and Azzurro Capital Inc. The complaint challenges Travelzoo s sale of its Asia Pacific division for $3.6 million to Azzurro and alleges that the transaction was not entirely fair to the Company.

On April 21, 2011, the Company entered into an agreement with the State of Delaware resolving all claims relating to an unclaimed property review which began in 2010. The primary issue raised in the preliminary findings from the review, received by the Company on April 12, 2011, concerned the shares of Travelzoo, which have not been claimed by former Netsurfer stockholders of Travelzoo.com (unexchanged merger shares) as discussed further in Note 1. In the preliminary findings under the unclaimed property review, up to 3.0 million shares were identified as demandable under Delaware escheat laws. While the Company continues to take the position that such shares were a promotional incentive and were issuable only to persons who established their eligibility as stockholders, the Company determined that it was in its best interest to promptly resolve all claims relating to the unclaimed property review. The Company made a $20.0 million cash payment to the State of Delaware on April 27, 2011 and received a complete release of those claims.

As discussed in Note 1 above, during March 2012, the Company has become subject to unclaimed property reviews by most of the other states in the U.S. that relate primarily to the unexchanged merger share, which were not covered by the settlement and release by the State of Delaware. During the three months ended March 31, 2012, the Company recorded a $3 million charge related to this unexchanged merger share contingency. While the Company believes it has meritorious defenses regarding the applicability of escheat rights related to this unexchanged merger share contingency, the ultimate resolution of this matter may take longer than one year to resolve. If the claims for all of the additional shares referred to in the preliminary findings were upheld in full, based on the closing price of the Company s shares at the end of June 2012, the cost to the Company would be approximately $22.2 million in excess of the amount accrued, plus any interest or penalties which might be applicable. However, the Company is not able to predict the ultimate amount or outcome of any current or future claims which have been or might be asserted relating to the unissued shares.

The Company is continuing its program under which it makes cash payments to people who establish that they satisfy the conditions to receive shares of Travelzoo.com Corporation, and who failed to submit requests to convert their shares into shares of Travelzoo Inc. within the required time period. The accompanying condensed consolidated financial statements include a charge in general and administrative expenses of $11,000 and $22,000 for these cash payments for the three months and six months ended June 30, 2012. The total cost of this program is not reliably estimable because it is based on the ultimate number of valid requests received and future levels of the Company s common stock price, and would be affected by any settlement of the pending unclaimed property reviews referred to above. 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.

Table of Contents

The Company leases office space in Canada, France, Germany, Spain, the U.K., and the U.S. under operating leases which expire between April 30, 2012 and June 30, 2022. The future minimum lease payments under these operating leases as of June 30, 2012 total $12.9 million. The future lease payments consist of $2,388,000 due in 2012, $3,773,000 due in 2013, $1,897,000 due in 2014, $1,767,000 due in 2015, $1,409,000 due in 2016, and $1,692,000 thereafter.

Local Deals and *Getaway* merchant payable included in accounts payable was $18.6 million and $16.0 million as of June 30, 2012 and December 31, 2011, respectively.

Note 6: Stock-Based Compensation

In November 2009, the Company granted employee options to purchase 300,000 shares of common stock with an exercise price of $14.97, of which 75,000 options vest and become exercisable annually starting July 1, 2011. The options expire in November 2019. As of June 30, 2012, 75,000 of these options were vested and 300,000 options were outstanding. Total stock-based compensation for the three months ended June 30, 2012 and 2011 was $187,000 for each period. Total stock-based compensation for the six months ended June 30, 2012 and 2011 was $375,000 for each period As of June 30, 2012, there was approximately $1.5 million of unrecognized stock-based compensation expense related to outstanding stock options. This amount is expected to be recognized over 2.0 years. In January 2012, the Company granted employee options to purchase 100,000 shares of common stock with an exercise price of $28.98, of which 25,000 options become exercisable annually starting January 23, 2013. The options expire in January 2022. As of June 30, 2012, none of these options were vested and 100,000 options were outstanding. Total stock-based compensation for the three months ended June 30, 2012 was $119,000. Total stock-based compensation for the six months ended June 30, 2012 was $219,000. As of June 30, 2012, there was approximately $1.7 million of unrecognized stock-based compensation expense related to outstanding stock options. This amount is expected to be recognized over 3.6 years. The Company used a forfeiture rate of 0% as the Company does not have enough historical forfeiture data to estimate the forfeiture rate. To the extent the actual forfeiture rate is greater than what we have anticipated, stock-based compensation related to these options will be lower than our expectations.

Note 7: Income Taxes

In determining the quarterly provisions for income taxes, the Company uses an estimated annual effective tax rate which is generally based on our expected annual income and statutory tax rates in the U.S. and Canada. For the six months ended June 30, 2012, the Company s effective tax rate was 35%, treating the $3.0 million accrued expense for unexchanged merger shares as having no recognizable tax benefits. For the six months ended June 30, 2011, the Company s effective tax rate was (297)%, treating the $20.0 million expense for the settlement with the State of Delaware as having no recognizable tax benefits.

United States income and foreign withholding taxes have not been provided on undistributed earnings for certain non-U.S. subsidiaries. The undistributed earnings on a book basis for the non-U.S. subsidiaries are approximately $1.6 million. The Company intends to reinvest these earnings indefinitely in its operations outside the U.S. If the undistributed earnings are remitted to the U.S. these amounts would be taxable in the U.S at the current federal and state tax rates net of foreign tax credits. Also, depending on the jurisdiction, any distribution may be subject to withholding taxes at rates applicable for that jurisdiction.

The Company maintains liabilities for uncertain tax positions. 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 June 30, 2012, the Company had approximately $1.6 million in total unrecognized tax benefits. Unrecognized tax benefits of approximately $192,000 which, if recognized, would favorably affect the Company s effective income tax rate, and unrecognized tax benefits of approximately $1.4 million which if recognized, would be recorded in discontinued operations.

The Company s policy is to include interest and penalties related to unrecognized tax positions in income tax expense. As of June 30, 2012 and December 31, 2011, the Company had approximately $412,000 and $391,000, respectively, in accrued interest and penalties related to uncertain tax positions. The Company is in various stages of multiple year examinations by federal and state taxing authorities. Although the timing of resolution and/or closure on 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 jurisdiction 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.

Table of Contents

The Company files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Company is subject to U.S. federal and certain state tax examinations for years after 2007 and is subject to California tax examinations for years after 2004.

Note 8: Segments

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

Management relies on an internal management reporting process that provides revenue and segment operating income (loss) for making financial decisions and allocating resources. Management believes that segment revenues and operating income (loss) are appropriate measures of evaluating the operational performance of the Company s segments.

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

Three months ended June 30, 2012:	**North America**	**Europe**	**Other(a)**	**Elimination**	**Consolidated**
Revenues from unaffiliated customers	$ 28,712	$ 10,648	$	$	$ 39,360
Intersegment revenues	205	21		(226)	
Total net revenues	28,917	10,669		(226)	39,360
Operating income (loss)	$ 7,831	$ 2,535	$	$	$ 10,366

Three months ended June 30, 2011:	**North America**	**Europe**	**Other(a)**	**Elimination**	**Consolidated**
Revenues from unaffiliated customers	$ 27,588	$ 9,977	$	$	$ 37,565
Intersegment revenues	112	57		(169)	
Total net revenues	27,700	10,034		(169)	37,565
Operating income (loss)	$ 6,543	$ 1,086	$	$	$ 7,629

Six months ended June 30, 2012:	**North America**	**Europe**	**Other(a)**	**Elimination**	**Consolidated**
Revenues from unaffiliated customers	$ 57,268	$ 21,425	$	$	$ 78,693
Intersegment revenues	470	31		(501)	
Total net revenues	57,738	21,456		(501)	78,693
Operating income (loss)	$ 14,972	$ 4,965	$ (3,000)		$ 16,937

Six months ended June 30, 2011:	**North America**	**Europe**	**Other(a)**	**Elimination**	**Consolidated**
Revenues from unaffiliated customers	$ 55,105	$ 19,420	$	$	$ 74,525
Intersegment revenues	213	61		(274)	

Total net revenues	55,318	19,481		(274)	74,525
Operating income (loss)	$ 15,794	$ 1,827	$ (20,000)	$	$ (2,379)

(a) Amount represents a charge related to unexchanged merger shares of $3.0 million and $20.0 million for the six months ended June 30, 2012 and 2011, respectively.

As of June 30, 2012:	**North America**	**Europe**	**Elimination**	**Consolidated**
Long-lived assets	$ 3,626	$ 613	$	$ 4,239
Total assets	$ 87,606	$ 28,271	$ (30,589)	$ 85,288

14

As of December 31, 2011:	North America	Europe	Elimination	Consolidated
Long-lived assets	$ 3,668	$ 593	$	$ 4,261
Total assets	$ 75,238	$ 26,210	$ (33,100)	$ 68,348

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

For the three and six months ended June 30, 2012 and 2011, the Company did not have any customers that accounted for 10% or more of revenue. As of June 30, 2012 and December 31, 2011, the Company did not have any customers that accounted for 10% or more of accounts receivable.

The following table sets forth the breakdown of revenues by type and segment for the three and six months ended June 30, 2012 and 2011. Travel revenue includes travel publications (*Top 20, Website, Newsflash*, *Travelzoo Network)* and *Getaways* vouchers. Search revenue includes *SuperSearch* and *Fly.com*. Local revenue includes *Local Deals* vouchers and Entertainment.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
North America				
Travel	$ 14,591	$ 14,144	$ 30,137	$ 30,304
Search	5,985	6,360	11,990	12,310
Local	8,136	7,084	15,141	12,492
Total North America revenues	$ 28,712	$ 27,588	$ 57,268	$ 55,106
Europe				
Travel	$ 7,543	$ 7,000	$ 14,936	$ 14,332
Search	1,012	1,338	2,302	2,296
Local	2,093	1,639	4,187	2,791
Total Europe revenues	$ 10,648	$ 9,977	$ 21,425	$ 19,419
Consolidated				
Travel	$ 22,134	$ 21,144	$ 45,073	$ 44,636
Search	6,997	7,698	14,292	14,606
Local	10,229	8,723	19,328	15,283
Total revenues	$ 39,360	$ 37,565	$ 78,693	$ 74,525

Note 9: Related Party Transactions

In July 2010, the Company entered into an independent contractor agreement with Holger Bartel, the Company s former Chief Executive Officer, the Company s Chairman and brother of Ralph Bartel, who controls the Company, to provide consulting services. Fees for these services rendered during the three and six months ended June 30, 2011 totaled approximately $104,000 and $268,000, respectively. No consulting services were rendered after September 30, 2011 as effective October 1, 2011, Holger Bartel became a full time employee of Travelzoo Inc. pursuant to an employment agreement.

On October 31, 2009, the Company completed the sale of its Asia Pacific operating segment to Azzurro Capital Inc. and its wholly owned subsidiaries, Travelzoo (Asia) Limited and Travelzoo Japan K.K. Azzurro Capital Inc. is owned and controlled by the Ralph Bartel 2005 Trust, on behalf of itself. Ralph Bartel, the Company s principal shareholder, is a Director of the Company and through September 30, 2010 was the Company s Chairman. Mr. Bartel is currently the sole beneficiary of the Ralph Bartel 2005 Trust. The Company s receivables from Travelzoo (Asia) Limited and Travelzoo Japan K.K. totaled $290,000 and $422,000 as of June 30, 2012 and December 31, 2011, respectively, and were related primarily to fees under a Hosting Agreement and a Referral Agreement entered into in connection with the sale transaction. The $290,000 and $422,000 are part of prepaid expenses and other current assets in the accompanying Condensed Consolidated Balance Sheets.

15

Item 2. ***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 , potenti continue , strategy , believes , anticipates , plans , expects , intends , and similar expressions are intended to identify forward-looking stater Travelzoo s actual results and the timing of certain events could differ significantly from those anticipated in such forward-looking statements. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those discussed elsewhere in this report in the section entitled Risk Factors and the risks discussed in our other SEC filings. The forward-looking statements included in this report reflect the beliefs of our management on the date of this report. Travelzoo undertakes no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other circumstances occur in the future.

Overview

Travelzoo Inc. (the Company , or Travelzoo) is a global Internet media company. We inform over 25 million subscribers in North America, Europe and Asia Pacific, as well as millions of website users, about the best travel and entertainment deals available from thousands of companies. Our deal experts source, research and test-book offers, recommending only those that meet Travelzoo s rigorous quality standards. We provide travel companies, entertainment companies and local businesses with a fast, flexible, and cost-effective way to reach millions of consumers. Our revenues are generated primarily from advertising fees. In Asia Pacific, the *Travelzoo* business is operated by Travelzoo (Asia) Ltd. and Travelzoo Japan K.K. under a License agreement with Travelzoo Inc.

Our publications and products include the *Travelzoo* websites (www.travelzoo.com, www.travelzoo.ca, www.travelzoo.co.uk, www.travelzoo.de, www.travelzoo.es, www.travelzoo.fr, among others), the *Travelzoo Top 20* e-mail newsletter, and the *Newsflash* e-mail alert service. We operate *SuperSearch,* a pay-per-click travel search tool, and the *Travelzoo Network*, a network of third-party websites that list deals published by Travelzoo. We also operate *Fly.com*, a travel search engine that allows users to quickly and easily find the best prices on flights from hundreds of airlines and online travel agencies. Recently, we launched *Local Deals* and *Getaways*, new services that allow our subscribers to purchase vouchers for deals from local businesses such as spas, hotels and restaurants through the *Travelzoo* website. Vouchers are redeemable at the local businesses during the promotional period. We receive a percentage of the face value of the voucher from the local businesses.

On October 31, 2009, we completed the sale of our Asia Pacific operating segment to Azzurro Capital Inc. and its wholly-owned subsidiaries, Travelzoo (Asia) Limited and Travelzoo Japan K.K. We have not had significant ongoing involvement with the operations of the Asia Pacific operating segment and have not had material economic interests in the Asia Pacific operating segment since the completion of the sale. Starting November 1, 2009, the *Travelzoo* websites in Asia Pacific (cn.travelzoo.com, www.travelzoo.co.jp, www.travelzoo.com.au, www.travelzoo.com.hk, www.travelzoo.com.tw, among others), the *Travelzoo Top 20* e-mail newsletters in Asia Pacific and the *Newsflash* e-mail alert service in Asia Pacific have been published by Travelzoo (Asia) Limited and Travelzoo Japan K.K., under a license agreement with the Company. There is a reciprocal revenue-sharing agreement among the entities operating the *Travelzoo* business in Asia Pacific and the Company related to cross-selling audiences, channels and offers.

More than 2,000 companies use our services, including American Airlines, Avis Rent A Car, British Airways, Harrah s Entertainment, Expedia, Fairmont Hotels and Resorts, Interstate Hotels & Resorts, JetBlue Airways, Kimpton Hotels, Liberty Travel, Marriott Hotels, Royal Caribbean, Spirit Airlines, Starwood Hotels & Resorts Worldwide, United Airlines, and Virgin Atlantic.

We have two operating segments based on geographic regions: North America and Europe. North America consists of our operations in Canada and the U.S. Europe consists of our operations in France, Germany, Spain, and the U.K. For the three months ended June 30, 2012, European operations were 27% of revenues. Financial information with respect to our business segments and certain financial information about geographic areas appears in Note 8 to the accompanying consolidated financial statements.

Table of Contents

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 subscribers to the Company s newsletters and page views of the homepages of the *Travelzoo* websites, operating margin, growth in revenues in the absolute and relative to the growth in reach of the Company s publications measured as revenue per subscriber and revenue per employee as a measure of productivity.

How We Generate Revenue

Our revenues are advertising revenues, consisting primarily of listing fees paid by travel companies, entertainment companies 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 the voucher redemption period, which normally is between three months and twelve months and are not automatically renewed. We have three separate groups of our advertising products; Travel, Search and Local.

Our Travel category of revenue includes the publishing revenue for negotiated high-quality deals from travel companies, such as hotels, airlines, cruises or car rentals and includes products such as *Top 20, Website, Newsflash, Travelzoo Network* as well as *Getaways* 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. We recognize revenue upon delivery of the e-mails, delivery of the clicks, over the period of placement of the advertising and upon the sale of the vouchers.

Our Search category of revenue includes comparison shopping tools for consumers to quickly and easily compare airfares, hotel and car rental prices and includes *SuperSearch* and *Fly.com* products. The revenues generated from these products are based upon a fee for clicks delivered to the advertisers or a fee for clicks delivered to advertisers that resulted in revenue for advertisers (i.e. successful clicks). We recognize revenue upon delivery of the clicks or successful clicks.

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

Trends in Our Business

Our ability to generate revenues in the future depends on numerous factors such as our ability to sell more advertising to existing and new advertisers, our ability to increase our audience reach and advertising rates and our ability to develop and launch new products.

Our current revenue model depends on advertising fees paid primarily by travel, entertainment and local companies. 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 health of the economy, competition and the introduction of new methods of advertising. For example, the consolidation of the airline industry reduced our revenues generated from this sector, the introduction of a new voucher-based product offered by competitive companies impacted our ability to sell our existing advertising products, the willingness of certain competitors to grow their business unprofitably and the economic uncertainty in Europe impacted advertiser s willingness to purchase our advertising. 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 *Getaways*). 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 *Getaways*, depending on how many vouchers are purchased by subscribers.

Table of Contents

Our ability to continue to generate advertising revenue depends heavily upon our ability to maintain and grow an attractive audience to reach with our advertising publications. We monitor our subscribers and page views of our websites to assess our efforts to maintain and grow our audience reach. We obtain additional subscribers 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 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, based upon the increased price this may reduce the amount of advertisers willing to advertise for the increased rates and therefore decrease our revenue.

We do not know what our cost of revenues as a percentage of revenues will be in future periods. Our cost of revenues will increase if the number of searches performed on *Fly.com* increases because we pay a fee based on the number of searches performed on *Fly.com*. Our cost of revenues will increase if the face value of vouchers that we sell for *Local Deals* and *Getaways* increases because we have credit card fees based upon face value of vouchers sold, customer service costs related to vouchers sold and subscriber refunds on vouchers sold. We expect fluctuations of cost of revenues as a percentage of revenues from quarter to quarter. Some of the fluctuations may be significant and have a material impact on our results of operations.

We do not know what our sales and marketing expenses as a percentage of revenue will be in future periods. Increased competition in our industry may require us to increase advertising for our brand and for our products. In order to increase the reach of our publications, we have to acquire a significant number of new subscribers in every quarter and continue to promote our brand. One significant factor that impacts our advertising expenses is the average cost per acquisition of a new subscriber. Increases in the average cost of acquiring new subscribers 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 subscriber acquisition efforts successfully, and the degree of competition in our industry. We may decide to accelerate our subscriber acquisition for various strategic and tactical reasons and, as a result, increase our marketing expenses. We may see a unique opportunity for a brand marketing campaign that will result in an increase of marketing expenses. Further, we expect our strategy to replicate our business model in selected foreign markets to result in a significant increase in our sales and marketing expenses and have a material adverse impact on our results of operations. Due to the continued desire to grow our business both in the North America and Europe we expect relatively high level of sales and marketing expense in the foreseeable future. We expect fluctuations of sales and marketing expenses as a percentage of revenue from year to year and from quarter to quarter. Some of the fluctuations may be significant and have a material impact on our results of operations. In July 2012, we announced our intention to increase our marketing expenses by an expected incremental $3 million to $4 million per quarter for the next six quarters. We expect this increased marketing expense to spur continued growth in subscribers and revenue; however, we cannot be assured of this due to the many factors that impact our growth in subscribers and revenue.

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

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 amount of accumulated net operating loss we have to offset current taxable income, the determination of whether valuation allowances for certain tax

Table of Contents

assets are required or not, including our valuation allowance on our European loss carryforwards, audits of prior year s tax returns resulting in adjustments, resolution of uncertain tax positions and different treatment for certain items for tax versus books such as our disposition our Asia business in 2009 or our State of Delaware settlement during 2011. We expect fluctuations in our income taxes from year to year and from quarter to quarter. Some of the fluctuations may be significant and have a material impact on our results of operations.

Our growth strategy key elements include building strong brand awareness, increasing reach, maintaining a high-quality user base, increasing the number of advertisers, providing advertisers with excellent service and replicating our business model in foreign markets. We expect to continue our efforts to grow; however, we may not grow or we may experience slower growth. Some recent examples of our efforts to expand our business internationally since our inception from the U.S. have been expansion to the U.K. in 2005, Canada in 2006, Germany in 2006, France in 2007 and Spain in 2008. We also have launched new products to grow our revenue such as the introduction of *Fly.com* in 2009 *Local Deals* in 2010, *Getaways* in 2011 as well as our mobile application launches in 2011.

We believe that we can sell more advertising only if the market for online advertising continues to grow and if we can maintain or increase our market share. We believe that the market for 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 advertisers in the future. We do not know if we will have market acceptance of our new products.

Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	9.2	7.8	9.8	7.2
Gross profit	90.8	92.2	90.2	92.8
Operating expenses:				
Sales and marketing	40.8	49.8	41.1	46.7
General and administrative	23.6	22.1	23.8	22.4
Unexchanged merger shares			3.8	26.8
Total operating expenses	64.4	71.9	68.7	95.9
Income (loss) from operations	26.4	20.3	21.5	(3.1)
Other income and expenses, net	(0.1)	0.1	0.1	0.1
Income (loss) before income taxes	26.3	20.4	21.6	(3.0)
Income taxes	7.9	7.3	7.6	9.1
Net income (loss)	18.4%	13.1%	14.0%	(12.1)%

19

Table of Contents

Operating Metrics

The following table sets forth operating metrics in North America and Europe for the three months ended June 30, 2012, and 2011:

	Three Months Ended June 30, 2012	2011
North America		
Total Subscribers	15,944,000	15,267,000
Page views of homepages of Travelzoo website(2)	7,691,000	10,059,000
Average cost per acquisition of a new subscriber	$ 1.02	$ 1.14
Revenue per employee (3)	$ 497	$ 497
Revenue per subscriber(4)	$ 7.25	$ 7.45
Europe		
Total Subscribers	6,123,000	5,466,000
Page views of homepages of Travelzoo websites(2)	3,744,000	5,332,000
Average cost per acquisition of a new subscriber	$ 1.95	$ 3.24
Revenue per employee (3)	$ 296	$ 330
Revenue per subscriber(4)	$ 7.12	$ 7.79
Consolidated		
Total Subscribers(1)	22,068,000	20,733,000
Page views of homepages of Travelzoo websites(2)	11,435,000	15,392,000
Average cost per acquisition of a new subscriber	$ 1.05	$ 2.28
Revenue per employee (3)	$ 420	$ 438
Revenue per subscriber(4)	$ 7.22	