

TRAVELZOO INC
Form 10-Q
August 09, 2006

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

(Mark One)

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

For the quarterly period ended June 30, 2006

or

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

For the transition period from to

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

(Exact name of registrant as specified in its charter)

DELAWARE

*(State or other jurisdiction of
incorporation or organization)*

36-4415727

*(I.R.S. employer
identification no.)*

**590 Madison Avenue, 21st Floor,
New York, New York**

(Address of principal executive offices)

10022

(Zip code)

Registrant's telephone number, including area code: **(212) 521-4200**

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The number of shares of Travelzoo common stock outstanding as of August 1, 2006 was 15,250,479.

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

	June 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,200	\$ 24,469
Short-term investments	14,884	19,887
Accounts receivable, less allowance for doubtful accounts of \$652 and \$418 as of June 30, 2006 and December 31, 2005, respectively	8,550	9,020
Deposits	23	28
Prepaid expenses and other current assets	659	631
Deferred income taxes	1,020	1,020
Total current assets	35,336	55,055
Deposits, less current portion	287	190
Deferred income taxes	28	28
Property and equipment, net	184	159
Intangible assets, net	7	20
Total assets	\$ 35,842	\$ 55,452
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 2,982	\$ 2,373
Accrued expenses	3,525	3,394
Deferred revenue	563	296
Income tax payable	848	856
Total liabilities	7,918	6,919
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value (40,000 shares authorized; 15,250 shares issued and outstanding as of June 30, 2006; 16,250 shares issued and outstanding as of December 31, 2005)	153	163
Additional paid-in capital	2,076	30,645
Retained earnings	25,729	17,763
Accumulated other comprehensive loss	(34)	(38)
Total stockholders' equity	27,924	48,533

Total liabilities and stockholders' equity	\$ 35,842	\$ 55,452
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See accompanying notes to unaudited condensed consolidated financial statements.

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TRAVELZOO INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Revenues	\$ 17,358	\$ 12,258	\$ 34,287	\$ 23,487
Cost of revenues	286	224	551	404
Gross profit	17,072	12,034	33,736	23,083
Operating expenses:				
Sales and marketing	7,939	6,152	15,038	11,182
General and administrative	2,146	2,127	4,747	4,735
Total operating expenses	10,085	8,279	19,785	15,917
Income from operations	6,987	3,755	13,951	7,166
Other income and expense:				
Interest income	302	218	646	377
Gain (loss) on foreign currency	13	(4)	6	(4)
Income before income taxes	7,302	3,969	14,603	7,539
Income taxes	3,452	1,791	6,637	3,529
Net income	\$ 3,850	\$ 2,178	\$ 7,966	\$ 4,010
Basic net income per share	\$ 0.25	\$ 0.13	\$ 0.50	\$ 0.25
Diluted net income per share	\$ 0.23	\$ 0.12	\$ 0.47	\$ 0.22
Shares used in computing basic net income per share	15,459	16,250	15,778	16,248
Shares used in computing diluted net income per share	16,677	17,852	16,983	17,998

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 7,966	\$ 4,010
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	69	84
Deferred income taxes		20
Provision for losses on accounts receivable	231	47
Tax benefit of stock option exercises		396
Accrued interest income	(334)	(123)
Changes in operating assets and liabilities:		
Accounts receivable	259	(1,836)
Deposits	(90)	(45)
Prepaid expenses and other current assets	(23)	50
Accounts payable	598	989
Accrued expenses	114	695
Deferred revenue	267	195
Income tax payable	(8)	638
Net cash provided by operating activities	9,049	5,120
Cash flows from investing activities:		
Purchases of property and equipment	(78)	(95)
Purchase of short-term investments	(14,663)	(19,773)
Sale of short-term investments	20,000	10,088
Net cash provided by (used in) investing activities	5,259	(9,780)
Cash flows from financing activities:		
Issuance costs incurred in connection with 2004 issuance of common stock		(124)
Proceeds from stock option exercises		35
Repurchase of common stock	(28,579)	
Net cash used in financing activities	(28,579)	(89)
Effect of exchange rate on cash and cash equivalents	2	(1)
Net decrease in cash and cash equivalents	(14,269)	(4,750)
Cash and cash equivalents at beginning of period	24,469	26,435
Cash and cash equivalents at end of period	\$ 10,200	\$ 21,685
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 6,645	\$ 2,475

See accompanying notes to unaudited condensed consolidated financial statements.

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**TRAVELZOO INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

Note 1: The Company and Basis of Presentation

Travelzoo Inc. (the Company or Travelzoo) is an Internet media company. The Company's publications include the *Travelzoo* Web sites (www.travelzoo.com, www.travelzoo.ca, and www.travelzoo.co.uk), the *Travelzoo Top 20* e-mail newsletter, and the *Newsflash* e-mail product. Travelzoo also operates *SuperSearch*, a pay-per-click travel search engine.

Travelzoo is controlled by Ralph Bartel, who held beneficially approximately 63% of the outstanding shares as of August 1, 2006.

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 disclosure 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, 2005, included in the Company's Form 10-K filed with the SEC on March 16, 2006.

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

The results of operations for the three and six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006 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. In 1998, Mr. Bartel also founded Silicon Channels Corporation, a California corporation, to operate the *Travelzoo* Web site. 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 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. The merger was accounted for as a combination of entities under common control using as-if pooling-of-interests accounting. Under this method of accounting, the assets and liabilities of Silicon Channels Corporation and Travelzoo Inc. were carried forward to the combined company at their historical costs. In addition, all prior period financial statements of Travelzoo Inc. were restated to include the combined results of operations, financial position and cash flows of Silicon Channels Corporation.

During January 2001, the Board of Directors of Travelzoo.com Corporation proposed that Travelzoo.com Corporation be merged with Travelzoo Inc. whereby Travelzoo Inc. would be the surviving entity. On March 15, 2002, the stockholders of Travelzoo.com Corporation approved the merger with Travelzoo Inc. On April 25, 2002, the certificate of merger was filed in Delaware upon which the merger became effective and Travelzoo.com Corporation ceased to exist. Each outstanding share of common stock of Travelzoo.com Corporation was converted into the right to receive one share of common stock of Travelzoo Inc. Under and subject to the terms of the merger agreement, stockholders were allowed a period of two years following the effective date of the merger to receive shares of Travelzoo Inc. 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.

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As of April 25, 2004, two years following the effective date of the merger, 7,180,342 shares of Travelzoo.com Corporation had been exchanged for shares of Travelzoo Inc. Prior to that date, the remaining shares which were available for issuance pursuant to the merger agreement were 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

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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, 2006, there were 15,250,479 shares of common stock outstanding.

It is possible that claims may be asserted against the Company in the future by former stockholders of Travelzoo.com Corporation seeking to receive shares in the Company, whether based on a claim that the two-year deadline for exchanging their shares was unenforceable or otherwise. In addition, one or more jurisdictions, including the Bahamas or the State of Delaware, may assert rights to unclaimed shares of the Company under escheat statutes. If such escheat claims are asserted, the Company intends to challenge the applicability of escheat rights, in that, among other reasons, the identity, residency and eligibility of the holders in question cannot be determined. 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 required to confirm their compliance with these conditions, and 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. If claims are asserted by persons claiming to be former stockholders of Travelzoo.com Corporation, the Company intends to assert that their rights to receive their shares expired two years following the effective date of the merger, as provided in the merger agreement. The Company also expects to take the position, if escheat or similar claims are asserted in respect of the unissued shares in the future, that it is not required to issue such shares. Further, even if it were established that unissued shares were subject to escheat claims, the Company would assert that the claimant must establish that the original Netsurfer stockholders complied with the conditions to issuance of their shares. The Company is not able to predict the outcome of any future claims which might be asserted relating to the unissued shares. If such claims were asserted, and were fully successful, that could result in the Company's being required to issue up to an additional approximately 4,076,000 shares of common stock for no additional payment.

On October 15, 2004, the Company announced a program under which it would make cash payments to persons who establish that they were former stockholders of Travelzoo.com Corporation, and who failed to submit requests for shares in Travelzoo Inc. within the required time period. The accompanying consolidated financial statements include a charge in general and administrative expenses of \$89,000 for these cash payments for the six months ended June 30, 2006 of which \$2,000 remains as a liability as of June 30, 2006. The liability is based on the number of actual requests received from former stockholders through June 30, 2006 which had not yet been processed. 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. 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. 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. Assuming 100% of the requests from 1998 were valid, former stockholders of Travelzoo.com Corporation holding an additional approximately 4,076,000 shares had not submitted claims under the program as of June 30, 2006.

The merger of Travelzoo.com Corporation into Travelzoo Inc. was accounted for as a combination of entities under common control using as-if pooling-of-interests accounting. Under this method of accounting, the assets and liabilities of Travelzoo.com Corporation and Travelzoo Inc. were carried forward at their historical costs. In addition, all prior period financial statements of Travelzoo Inc. were restated to include the combined results of operations, financial position and cash flows of Travelzoo.com Corporation. The restated results of operations and cash flows of Travelzoo Inc. are identical to the combined results of Travelzoo.com Corporation and Travelzoo Inc.

Note 2: Revenue Recognition

All revenue consists of advertising sales. Advertising insertions are either sold by fixed-fee arrangements or sold by variable-fee arrangements.

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The Company recognizes revenues in accordance with Securities and Exchange Commission Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. Advertising revenues are recognized in the period in which the advertisement is displayed, provided that evidence of an arrangement exists, the fees are fixed or determinable and collection of the resulting receivable is reasonably assured. Where collectibility is not reasonably assured, the revenue will be recognized upon cash collection, provided that the other criteria for revenue recognition have been met. The Company recognizes revenue for fixed-fee advertising arrangements ratably over the term of the insertion order as described below. The majority of insertion orders have terms that begin and end in a quarterly reporting period. In the cases where at the end of a quarterly reporting period the term of an insertion order is not complete, the Company recognizes revenue for the period by pro-rating the total arrangement fee to revenue and deferred revenue based on a measure of proportionate performance of its obligation under the insertion order. The Company measures proportionate performance by the number of placements delivered and undelivered as of the reporting date. The Company uses prices stated on its internal rate card for measuring the value of delivered and undelivered placements. Fees for variable-fee advertising arrangements are recognized based on the number of impressions displayed or clicks delivered during the period.

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

Evidence of an arrangement. The Company considers an insertion order signed by the client or its agency to be evidence of an arrangement.

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

Fixed or determinable fee. The Company considers the fee to be fixed or determinable if the fee is not subject to refund or adjustment and payment terms are standard.

Collection is deemed reasonably assured. The Company conducts a credit review for all transactions at the time of the arrangement to determine the creditworthiness of the client. Collection is deemed reasonably assured if it is expected that the client will be able to pay amounts under the arrangement as payments become due. If it is determined that collection is not reasonably assured, then revenue is deferred and recognized upon cash collection. Collection is deemed not reasonably assured when a client is perceived to be in financial distress, which may be evidenced by weak industry conditions, a bankruptcy filing, or previously billed amounts that are past due.

The Company's standard payment terms are 30 days net. Insertion orders that include fixed-fee advertising are invoiced upon acceptance of the insertion order and on the first day of each month over the term of the insertion order, with the exception of *Travelzoo Top 20* or *Newsflash* insertions, which are invoiced upon delivery. Insertion orders that include variable-fee advertising are invoiced at the end of the month. The Company's standard terms state that in the event that Travelzoo fails to publish advertisements as specified in the insertion order, the liability of Travelzoo to the client shall be limited to, at Travelzoo's sole discretion, a pro rata refund of the advertising fee, the placement of the advertisements at a later time in a comparable position, or the extension of the term of the insertion order until the advertising is fully delivered. The Company believes that no significant obligations exist after the full delivery of advertising.

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

Note 3: Stock-based Compensation

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payments (SFAS 123R), which addresses the accounting for stock-based payment transactions whereby an entity receives employee services in exchange for equity instruments, including stock options. SFAS 123R eliminates the ability to account for stock-based compensation transactions using the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees , and instead

generally requires that such transactions be accounted for using a fair-value based method. The Company has elected the modified prospective transition method as permitted under SFAS 123R, and accordingly prior periods have not been restated to reflect the impact of SFAS 123R. The modified prospective transition method requires that stock-based compensation expense be recorded for all new and unvested stock options that are ultimately expected to vest as the requisite service is rendered beginning on January 1, 2006. Stock-based compensation for awards granted prior to January 1, 2006 is based upon the grant-date fair value of such compensation as determined under the pro forma provisions of SFAS No. 123, Accounting for Stock-Based Compensation.

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The Company did not provide any stock-based compensation in fiscal years 2004, 2005, or in the six months ended June 30, 2006. In addition, all previously issued options vested prior to January 1, 2002.

Option activity as of June 30, 2006 and changes during the six months ended June 30, 2006 were as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2005	2,211,074	\$ 1.03		
Outstanding at June 30, 2006	2,211,074	\$ 1.03	4.61 years	\$ 64,810
Exercisable and fully vested at June 30, 2006	2,211,074	\$ 1.03	4.61 years	\$ 64,810

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of the second quarter of fiscal 2006 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 June 30, 2006. This amount changes based on the fair market value of the Company's stock. The Company's policy is to issue shares from the authorized shares to fulfill stock option exercises.

Note 4: Net Income Per Share

Net income per share has been calculated in accordance with SFAS No. 128, Earnings 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 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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Basic net income per share:				
Net income	\$ 3,850	\$ 2,178	\$ 7,966	\$ 4,010
Weighted average common shares	15,459	16,250	15,778	16,248
Basic net income per share	\$ 0.25	\$ 0.13	\$ 0.50	\$ 0.25
Diluted net income per share:				
Net income	\$ 3,850	\$ 2,178	\$ 7,966	\$ 4,010
Weighted average common shares	15,459	16,250	15,778	16,248
Effect of dilutive securities: stock options	1,218	1,602	1,205	1,750
Diluted weighted average common shares	16,677	17,852	16,983	17,998
Diluted net income per share	\$ 0.23	\$ 0.12	\$ 0.47	\$ 0.22

Note 5: Stockholders Equity

Share Repurchases

In February 2006, Travelzoo announced a share repurchase program authorizing the repurchase of up to 1.0 million shares of common stock in the open market or in private transactions. During the six months ended June 30, 2006, the Company purchased and retired 1.0 million shares of common stock for an aggregate price of \$28.6 million and completed the share repurchase under this program. There were no shares repurchased during the six months ended June 30, 2005.

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The Company leases office space in Canada, Germany, Spain, U.K., and U.S. under operating leases which expire between December 31, 2006 and March 31, 2009. The future minimum lease payments under these operating leases as of June 30, 2006 total \$2,551,000. The future lease payments consist of \$937,000 due in 2006, \$1,535,000 due in 2007, \$67,000 due in 2008, and \$12,000 due in 2009.

It is possible that claims may be asserted against the Company in the future by former stockholders of Travelzoo.com Corporation seeking to receive shares in the Company, whether based on a claim that the two-year deadline for exchanging their shares was unenforceable or otherwise. In addition, one or more jurisdictions, including the Bahamas or the State of Delaware, may assert rights to unclaimed shares of the Company under escheat statutes. If such escheat claims are asserted, the Company intends to challenge the applicability of escheat rights, in that, among other reasons, the identity, residency and eligibility of the holders in question cannot be determined. 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 required to confirm their compliance with these conditions, and 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. If claims are asserted by persons claiming to be former stockholders of Travelzoo.com Corporation, the Company intends to assert that their rights to receive their shares expired two years following the effective date of the merger, as provided in the merger agreement. The Company also expects to take the position, if escheat or similar claims are asserted in respect of the unissued shares in the future, that it is not required to issue such shares. Further, even if it were established that unissued shares were subject to escheat claims, the Company would assert that the claimant must establish that the original Netsurfer stockholders complied with the conditions to issuance of their shares. The Company is not able to predict the outcome of any future claims which might be asserted relating to the unissued shares. If such claims were asserted, and were fully successful, that could result in the Company's being required to issue up to an additional approximately 4,076,000 shares of common stock for no additional payment.

On October 15, 2004, the Company announced a program under which it would make cash payments to persons who establish that they were former stockholders of Travelzoo.com Corporation, and who failed to submit requests for shares in Travelzoo Inc. within the required time period. The accompanying consolidated financial statements included a charge in general and administrative expenses of \$89,000 for these cash payments for the six months ended June 30, 2006 of which \$2,000 remains as a liability as of June 30, 2006. The liability is based on the number of actual requests received from former stockholders through the reporting date which had not yet been processed. 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. 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. 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. Assuming 100% of the requests from 1998 were valid, former stockholders of Travelzoo.com Corporation holding approximately 4,076,000 shares had not submitted claims under the program.

Note 7: Segment Reporting and Significant Customer Information

The Company manages its business geographically and has two operating segments: North America and Europe. North America consists of the Company's operations in the U.S. and Canada. Europe consists of the Company's operations in the U.K., Germany, and Spain. The Company began operations in Europe in May 2005.

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

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

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	North			
	America	Europe	Elimination	Consolidated
Three months ended June 30, 2006:				
Revenue from unaffiliated customers	\$ 16,616	\$ 742	\$	\$ 17,358
Intersegment revenue	42	1	(43)	
Total net revenues	16,658	743	(43)	17,358
Operating income (loss)	7,481	(494)		6,987
	North			
	America	Europe	Elimination	Consolidated
Three months ended June 30, 2005:				
Revenues from unaffiliated customers	\$ 12,249	\$ 9	\$	\$ 12,258
Intersegment revenues	14		(14)	
Total net revenues	12,263	9	(14)	12,258
Operating income (loss)	3,929	(174)		3,755
	North			
	America	Europe	Elimination	Consolidated
Six months ended June 30, 2006:				
Revenues from unaffiliated customers	\$ 32,980	\$ 1,307	\$	\$ 34,287
Intersegment revenues	113	2	(115)	
Total net revenues	33,093	1,309	(115)	34,287
Operating income (loss)	14,905	(954)		13,951
	North			
	America	Europe	Elimination	Consolidated
Six months ended June 30, 2005:				
Revenues from unaffiliated customers	\$ 23,478	\$ 9	\$	\$ 23,487
Intersegment revenues	14		(14)	
Total net revenues	23,492	9	(14)	23,487
Operating income (loss)	7,341	(175)		7,166